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# PROUDHON'S SOLUTION OF THE SOCIAL PROBLEM

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P. J. PROUDHON

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*HENRY COHEN*



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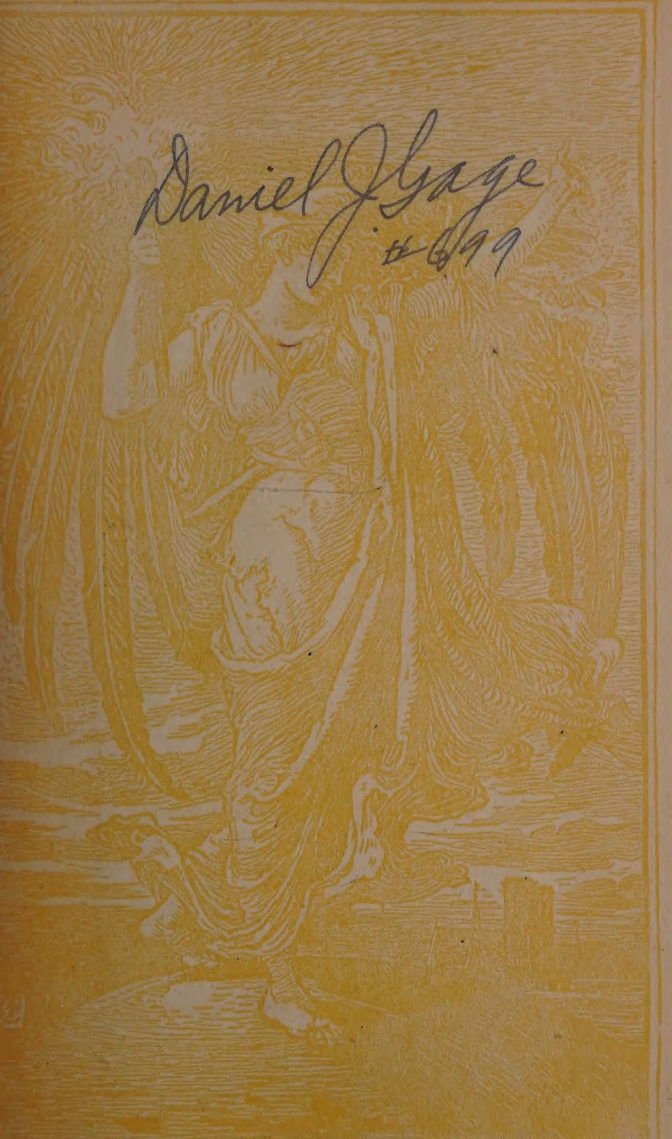


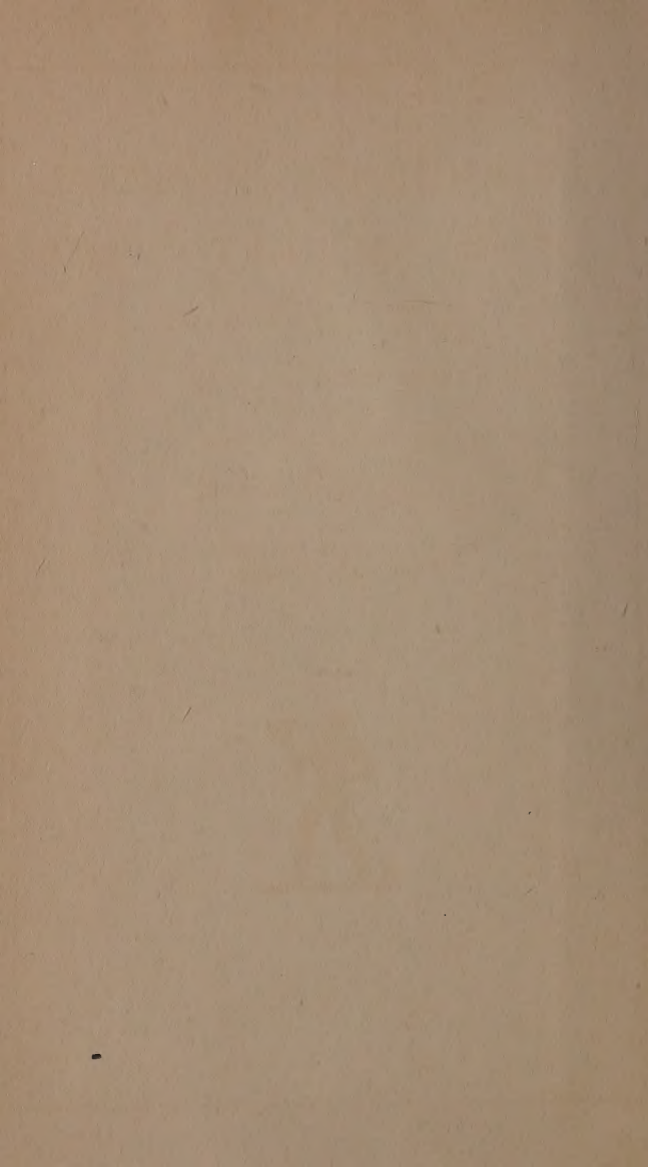
What Shall Endure ?

Great roads the Romans built, that men might meet,  
And walls to keep strong men apart - secure ;  
Now centuries have gone, and in defeat  
The walls have fallen, but the roads endure.

Ethelyn Miller Hartwich

Daniel Gage  
# 699





# Proudhon's Solution of the Social Problem

P. J. PROUDHON

Including Commentary and  
Exposition by

CHARLES A. DANA

and

WILLIAM B. GREENE

*Edited, with Introduction, by*  
HENRY COHEN



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## EDITOR'S PREFACE

REFORMERS are usually gentle folk. In looking over the list we find that one comes from the nobility, another is rich, a third is related to famous men. Every one of them seems to have a "background." In this Proudhon is an exception. His father was a cooper, his mother a peasant. There is a story told of him, that, as a boy, he came home from school loaded with prizes and found nothing to eat in the house. When he came to Paris from his native village he had to walk all the way, as he did not have enough money to pay for a seat in the cheapest conveyance. Self-educated, self-conscious, a lonely genius, he was the very man to challenge, not only the old ideas, but the old methods as well.

His first important work, written in 1840, asks the question, *What is Property?* and answers it by saying, "Property is Theft." This is the best known phrase in political economy, and the most misunderstood. Some one has said of Milton's *Paradise Lost* that "Everyone talks of it, but no one reads it." So it is with Proudhon. His phrase is often mentioned by writers who have not read him and have not found out his meaning. For this misunderstanding, Proudhon himself was in part to blame. In his desire to say something startling he did not use these words in their ordinary meaning. However, in his later works he explained that, by property, he really meant privilege, and that theft can be charged only against those who steal knowingly. How privilege takes a part of the laborer's product from him, to state the idea in a more exact and also a milder form, he was the first to show.

His was a radical departure from the old method of formulating social theories, which was something like the fol-

lowing: Principles were first posited, and then society was expected to adopt them as a man puts on a new coat; they were made to measure and were sure to fit. Thus we find Karl Marx spending his time studying in the British Museum and predicting a new society in which the State would be everything. At the same time, in another part of London, Herbert Spencer, from his studies, reached the opposite view, and was planning a new society, in which the State was to be abolished. They both carried into science the methods of religious leaders, with the usual articles of faith and litanies, except that they were called principles and formulas instead. These were to be accepted by all good people, and, of course, rejected by all the bad ones. In a letter that Proudhon wrote to Marx in 1847, warning him against this very thing, he says: "After we have destroyed all *a priori* dogmatisms, let us not think, in our turn, to indoctrinate the people—let us not, because we are at the head of the movement, make ourselves the leaders of a new intolerance; let us not pose as apostles of a new religion, although this religion be the religion of logic, the religion of reason."

We have now learned that people are very much alike, irrespective of the class to which they belong, and it is no longer a matter of good people of a certain class being converted to a new doctrine and accepting it at once. It is more probable that some people from every class will help bring about something better, gradually and imperceptibly. Just now all efforts are directed toward getting "something for nothing," as Thorstein Veblen well expresses it. Every form of parasitic activity is considered more genteel than the useful labor which results in the production of goods. Each producer must carry one or more useless members of society on his back. But when we get to the producer himself, he wants to produce as little as possible in order to get a high price for his product. This results in limited productivity all around, and, consequently, in general poverty. If a mutual understanding existed between all the productive groups to increase production as much as possible,



and to exchange these products at cost, everybody would gain, and there would be general abundance. The monstrous delusion—that society can get something for nothing—must be dispelled.

A mutual bank such as Proudhon outlined would be a demonstration on the part of the people that a productive, instead of a parasitic activity is the objective.

Before Proudhon's time, the employer of labor, the man who owned the factories, the machines, and the tools, the man who bought labor in the cheapest market and sold the products in the dearest, was supposed to be the exploiter; and this notion still persists among many people. All Socialists, Communists, and most Cooperationists, still believe in it, and in different ways want the "means of production" to be acquired by the collectivity, by the commune, or by the workers jointly. It was this belief that made Proudhon's associates want to organize a Syndicate of Production and a Syndicate of Consumption, in connection with his Bank of the People, but Proudhon felt that was unnecessary. He knew that the thousands of members who belonged to his Banking Association and who were engaged in every trade and business could furnish all products at cost; and, with credit free, competition would compel them to sell at cost anyway, so there was no need to burden the Bank with these risky and useless activities in addition to its necessary functions.

His theory of how credit expansion could foster industry, and thus increase production, so that there would be, in the first place, more wealth to distribute, has been the direction in which development has taken place in the United States, although there is still much to be done.

Since Proudhon's day the employer—that is, the industrial capitalist—in all but the smaller industries, has either been displaced by the financial capitalist or has become one himself. This is particularly noticeable in the change of location of the headquarters of the larger industries, and in the change of function of the men who control them. In the United

States the oil business began at Cleveland, steel at Pittsburgh, copper at Butte, smelting at Denver. Formerly these were conducted by the owners in person on the ground. In addition to the few original plants in the above cities, the owners have acquired many others, throughout this country and in other countries, but all of them have their headquarters in New York City, far from the places where the product is turned out; the wealth is produced everywhere, but it all flows to this great financial center, where the heads of these corporations now are. Proudhon predicted the coming power of the financial capitalist. The importance of abolishing financial mastery, which he insisted upon, is now admitted by all; but his advocacy of it eighty years ago shows him to be one of the greatest thinkers of that time.

Proudhon always demanded liberty for the individual. Association, he says, is not a good in itself, and should only be resorted to in the few instances where the individual cannot act alone.

So he has a twofold objection to the cooperative ownership of capital; it is a limitation of liberty, and thus undesirable politically; and, as the ownership of capital is not the cause of exploitation, it is unnecessary economically.

Association is popular with those who feel that mass action is good, and that there is virtue in numbers—a feeling which results from timidity; and timidity is the source of the frequent fear to venture alone. Such persons are attracted by words like association and cooperation, while the words freedom and competition are to them taboo. They want help from government, and they form numberless voluntary organizations modeled after government, for every possible and some impossible purposes. In one of our large cities a meeting was held recently consisting of delegates from 2,000 different societies consecrated to the uplift. Another city has over 1,300 gangs devoted to the downpull. So we find both the avowedly good and the frankly vicious in full accord in striving to submerge the individual in the mass.

But all these desires for protection and assistance must end in disappointment and all these denials of freedom will result in failure; and in the end it will be found that only through personal liberty and individual responsibility can there be any progress.

Man has been a tool-using animal for a thousand generations, and has been trying in all that time to accumulate wealth, yet the total wealth of the United States that is the product of labor is less than two thousand dollars per capita.

A skilled worker today is able, if properly equipped, to create two dollars worth of wealth in one hour. We have, therefore, in a thousand generations, only accumulated what can now be easily produced in one thousand hours. But if the production of wealth shows up badly, its distribution shows up worse, for of this wealth only a pitifully small fraction is in the hands of those who produced it.

The use of machinery in the last 150 years of this long period has increased the capacity of the laborer to produce over fiftyfold more wealth than he could produce before, but has given him only a fourfold increase in his income. Our present national wealth is great when compared with former times, but we are really poor when our productive capacity is considered, and the historian of the future will marvel that such a potentiality for production was so long repressed.

When industry was in the hands of individuals and partnerships, business concerns were small in comparison with the immense aggregations of corporate capital of the present time. With the modern corporation there has come not only a great increase in capitalization, but much overcapitalization. These are supposed to be harder to contend with than the smaller concerns of previous times. But no amount of capital, either real or fictitious, can add to their strength, if capital cannot yield an income.

When the cost of credit is brought down to zero, the rate of interest on all capital must fall with it, and the elim-

ination of all profits on actual capital will carry with it those which accrue to fictitious capital as well.

While Proudhon antedates the evolutionary writers, he senses the evolutionary process better than they do. His phrase, "the dissolution of government in the economic organism," is a happier one than any of Spencer's. Both of them wanted freedom, but the former's point of attack—the economic—is a more effective one than the latter's—the political.

Therefore, his fight for freedom begins not with the State, but with the Bank, the center of circulation in the economic system.

It is the banker, sustained by privilege, says Proudhon, who fixes the rate of interest that he must be paid, and thus establishes the rate of profit which all capitalists can exact. This he demonstrated, not by abstractions, but by bookkeeping, showing concretely how the actual process takes place every day in the business world; and all this was long before the importance of bookkeeping was recognized and before accounting became a science.

In his plans for the two banks which he proposed, the first one was to transform the Bank of France into a Bank of Exchange, and the second was one that he himself attempted to start with the assistance of his friends—The Bank of the People. In the full description of how these banks were expected to operate, detailed with such loving care, the reader will find many of his objections anticipated and many perplexing questions answered.

In 1849 a metallic currency and privileged bank notes were a greater part of the circulating medium, in his country as well as ours. Since that time we have traveled a long way on the road he suggested. Today it is mostly circulating credit issued by banks and they have been able to expand it and dispense to a great extent with both metallic and paper money. This circulating credit must be distinguished from fixed credit. Fixed credit is the note that is deposited

as security for the loan with a bank; circulating credit is the bank note that every one is willing to take in exchange for goods or services or in payment of debts. So, while the government mints a certain amount of gold, silver and subsidiary coins and issues some treasury notes, the rest of the currency is bank and Federal Reserve notes, but all these are only a small fraction of the circulating medium. Over ninety-five per cent of the business of the United States is now done through banks with checks and drafts, clearing houses, and other means and devices. Most of the bank's business is based on the credit of the bank's customers, who must pay the bank for the right to circulate their own credit. Once people learn that underwriting this credit can be done for less than one per cent a year by a mutual understanding between the producers, the banker's profits will be gone. But this is not all. Industry being freed, production can easily be doubled or even trebled, with a corresponding increase of general well being in consequence.

In the year 1900 the scientific world awoke one day to find that Mendel, an Austrian monk, had discovered a new biological truth, the record of which was found in the archives of a scientific society in Brünn, where it had been buried for thirty years. It has no such excuse for ignoring Proudhon's theory of gratuitous credit. His writings were given much publicity. In addition to his own works, books and pamphlets were written by his followers, journals were published in France, America and England which advocated his ideas, the most noteworthy periodical being *Liberty*, of Boston and New York, in whose columns Benjamin R. Tucker for a whole generation expounded these principles, with an ability and a devotion that have no parallel in any American reform movement. But they have not attracted widespread attention; and the educated writers who mention Proudhon seem to fail as dismally to grasp his thought as do the superficial ones.

Because of this failure, this volume has been planned, con-

sisting of selections from his writings which go minutely into the subject, and which give at length what Proudhon, and also what Charles A. Dana and William B. Greene, his most prominent American disciples of his own day, had to say on money and credit.

Proudhon's *Solution of the Social Problem* contains the plans for the two banks that he proposed. He was at work on this volume when the Revolution of 1848 broke out, and his ideas had to be cut up into pamphlets and newspaper articles. His financial arguments are therefore scattered. Although they are fragmentary they are his most valuable writings. The title of this volume, while identical with the above work, includes also writings which were published both before and after that work appeared.

Of Proudhon's many works only a few are in English. *What is Property*, the first volume of *The System of Economical Contradictions*, and the debate on *Interest and Principal* between Proudhon and Bastiat were translated by Benj. R. Tucker, and the first two were also published by him; the third appeared serially in *The Irish World* of New York in the summer of 1879.

*The General Idea of the Revolution of the Nineteenth Century* was translated by the late John Beverley Robinson of Saint Louis, and was published by *The Freedom Press* of London, England, shortly before Mr. Robinson's untimely death in 1923. Two years previously he translated the section of the *Solution of the Social Problem* entitled "The Bank of the People," and kindly presented me with the manuscript thereof, which now appears in this collection.

*War and Peace*, translated by Bartolomeo Vanzetti while he was held in Dedham Jail, is still in manuscript.

My thanks are due to my friend, Mr. Clarence L. Swartz of Los Angeles, for valuable help in translating the extracts from *The System of Economical Contradictions* and *The Bank of Exchange* which also are now presented to the English reader for the first time. I am likewise indebted to Mr. A. J. Ford, the present proprietor of *The Irish World*, for

his kind permission to copy from his personal file of that paper the extracts from that momentous discussion which Mr. Tucker translated for Mr. Ford's father so many years ago, and which also form a part of the present volume.

H. C.

Los Angeles, California, September, 1927.





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PROUDHON AND HIS BANK OF THE PEOPLE

BY CHARLES A. DANA



## INTRODUCTORY NOTE

CHARLES A. DANA (1819-1897) had a most interesting career. He was a radical at the age of thirty, and in his forties he was the Assistant Secretary of War, during the momentous days from 1861 to 1865. In his old age he was considered the foremost journalist of the United States. But the idealism of his earlier years did not endure, and he became a bitter reactionary.

The six articles which follow he wrote for *The New York Tribune*. They were afterwards (1849) revised for *The Spirit of the Age*, a New York weekly paper edited by the Rev. William Henry Channing. From the pages of this paper they were collated and published as a pamphlet in 1896 by Benjamin R. Tucker, who added the footnotes. By that time the older generation that knew of Dana's radicalism had died out, and it was almost forgotten. Famous men are usually troubled with the memory of some peccadillo of their youth which they fear may be discovered and be brought up to their embarrassment, and to this rule Dana was no exception.

The campaign of 1896, when Bryan ran for President, was one of unusual acerbity. Big business felt that Bryan's attack on the gold standard was an assault on its privileges, and no adjectives were too bitter to be hurled against the young Nebraskan. In the columns of his paper, *The New York Sun*, Dana led all others in denunciation and abuse. At the height of the campaign Bryan came to New York to speak in Madison Square Garden. Then it was that Mr. Tucker launched this pamphlet and sent it to the press everywhere, and Dana became the laughing stock of the country. The disgrace, however, in this instance, lay not in the early action, but in the subsequent repudiation of it. Instead of being something reprehensible, it was something of which an honest man would have been justly proud; but Dana had become a renegade, so the exposure made his discomfiture complete. (Editor.)





# PROUDHON'S SOLUTION OF THE SOCIAL PROBLEM

PROUDHON AND HIS BANK OF THE PEOPLE

BY CHARLES A. DANA

## I

### PROUDHON'S LIFE

M. PROUDHON has of late been one of the most prominent men in Europe, or, as some writers might say, the most notorious. He has enjoyed the distinguished honor of being talked about in the newspapers, and his name has figured in dispatches received by magnetic telegraph.

Since his imprisonment for libel on President Bonaparte, we have not indeed heard often of him in the active world, but his writings remain to instruct, alarm, or amuse, according to the nature of their readers. His system, if system it be, is still there, and is still a regular subject for discussion. Monthlies and quarterlies devote long articles to discussions of his sayings and doings, trembling for the welfare of the continent which contains such a destructive. M. Guizot, in his late book on Democracy in France, confesses that he is the ablest of the Socialists as well as the most terrific, and then launches into a refutation of his doctrines so weak and shallow as to provoke only a smile from those who happen to be too well informed to be imposed on by its gravity and the elegance of its style. The daily journals of Paris and London, with few exceptions, have learned to sing the same

song. Any one of them stands ready to affirm that Proudhon is an atheist and a madman, a Communist burning to plunder the wealthy, the living incarnation of immorality, disorder, and folly. These things are, of course, repeated on this side of the water, and silly editors, who never read a book of Proudhon's and know no more of his character than they do of his ideas, take their cue from European brethren and make themselves ridiculous by talking at second or third hand what was little else than a mixture of ignorance and spite at first. We humbly protest against such a mode of deciding upon the merits of a man who, whatever be his faults as a thinker, must be admitted, on a more careful observation, to possess a remarkable degree of originality and vigor of mind as well as of honesty and moral courage. We propose, as briefly as possible,—more briefly, indeed, than is consistent with a just statement of Proudhon's doctrines,—to explain the leading points of his philosophical and economic system. First, however, it is proper to notice the facts of his personal history.

P. J. Proudhon was born at Besançon, in the department of Doubs,—a region noted for the energy and talent of its natives,—in the year 1809, and is accordingly now forty years old. His father was a cooper, and his childhood was passed among the people. The circumstances of his early life no doubt contributed something to form in him the unyielding hostility to everything that burdens and keeps down the masses which is one of his characteristics. As a boy, he was remarkable for talent, originality, and obstinacy. He had an uncle who was professor of law at the Royal College of Dijon. Attracted by the brightness of his nephew, he procured for him a free scholarship in that college.\* As a student, he carried all before him, being as industrious as he was gifted. The most abstruse subject was clear to his penetration; he knew at once lessons over which others long and wearily drudged; his memory lost nothing that it had

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\* Sainte-Beuve, in his life of Proudhon, says that he was a cousin of the Dijon professor, but makes no mention of this free scholarship.

ever seized; and a weariless activity made his studies as extensive as they were thorough. He graduated with a reputation as brilliant as it was well earned, and no one could have had reason to doubt that fame and fortune awaited him in whatever profession he might choose.

But the young student was not like his companions. The learned professions did not tempt him; he fancied that in none of them could be found that independence which he knew to be the first want of his nature. He must have for himself a position in which his daily bread would never have to be earned by refraining to express what was a conviction, or expressing what was not. Lying, in all shades, was to him the most distasteful of all things. In his love of freedom and hatred of hypocrisy there was something almost savage. Less compact, intense, and consistent in his character than that other distinguished native of Besançon, Charles Fourier, he was equally resolute and more uncompromising. He determined to learn a mechanical trade, and his scholarly habits and tastes naturally led him to become a printer.

It was not long before the quickness of young Proudhon had mastered all the mysteries of typography, and he became an excellent workman. He was soon noticed by the chiefs of the establishment, and made a proof-reader. In this capacity his knowledge of Greek, Latin, and Oriental languages was of great service; he was employed in correcting learned works at a higher salary than ordinary proof-readers. His labor gave him a living, and there was no reason why he should not follow his bent. His thinking was much directed to metaphysical subjects; political economy was also a favorite theme of his reflections, but, on the whole, philosophy had the preference. He dug into the obscurities of the Germans, searched the pantheisms of India and China, and found satisfaction in the vigorous logic of Aristotle and the glorious eloquence and glowing transcendentalism of Plato. Of all these systems that of Hegel has perhaps had the most influence upon his mind; this influence is especially manifested in his largest and ablest work, *The Contradiction of Politi-*

*cal Economy*,\* where he sets the doctrines of opposing schools of economists to destroying each other somewhat after the fashion of the Kilkenny cats. But, however this may be, the learning of M. Proudhon in the systems of philosophical writers is immense. We know privately that Mr. Morrell of London, author of the recent history of modern philosophy, regards him as almost unequaled in this respect.

Of course, his sayings and writings during this period were not calculated to insure for him the reputation of a sound and safe person. He was always noted for the boldness of his ideas and the fearlessness with which they were uttered. He cared less about having what he said to-day in perfect harmony with what he said yesterday than that it should be the expression of his present thought. This sort of honesty he preserves still, and, when he changes his mind or gets a new idea, is never afraid to say so. Then, as now, he frightened many who came in contact with him, but always commanded the respect of all by the sturdy vigor and courage of his normal and mental constitution.

While toiling in this double capacity of proof-reader and student, the academy of his native city proposed, in its regular list of subjects for prizes, *The Observation of the Sabbath*. Proudhon wrote upon it, and his book gained the prize. It has been widely circulated and everywhere praised, especially by the religious. It maintains with much power the divine wisdom of the Mosaic law in general and of that ordinance establishing the Sabbath in particular. Some people wonder how such a radical and destructive could have written such a book; they do not comprehend him, that is all.

The prize gained was 1,800 francs (\$360) a year, for three years, to be expended at Paris in completing his studies. He went there and wasted no time, laboring for the most part in the same direction as before,—namely, metaphysics and political economy. Afterward he went back to Besançon

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\*"System of Economical Contradictions" is the correct translation of the title of the book here referred to. The statement that this work is Proudhon's largest was true when Mr. Dana was writing this series of articles, but it is not true now.

and set up a printing establishment on his own account, in which he succeeded; other industrial enterprises in which he engaged also bore witness, by turning out well, to the fact that all of his talent does not lie in the use of his pen. He has also been engaged in other enterprises, but never got rich, having always been drawn off by the necessity of writing. When once he was offered a large sum to engage in a business in which there was a certainty of making a fortune, but would have required his undivided attention, he refused, saying that his force was in his poverty.

It is as a journalist and since the Revolution that he has taken the large place he now occupies before the public. He began on the 1st of April, 1848, the publication of a daily penny paper at Paris called the *Representant du Peuple*. Gen. Cavaignac suppressed it in June; it appeared again when the interdict was removed from the journals generally; it was suppressed again August 21, and reappeared October 31, under the title of *Le Peuple*. Its numbers were afterwards seized many times, according to the arbitrary and foolish law of the country, and its publisher and editor subjected to numerous prosecutions, the last of which resulted in the sentence of a heavy fine and imprisonment; the charge in this case was a libel on President Bonaparte, and the sentence was unjustly severe, even supposing the charge true. For a time Proudhon kept out of the way, in order to avoid imprisonment, but at last gave himself up, and was put in jail, where he now remains, and where, we hear, he is about to be married. His paper finally ceased to appear, together with the other democratic journals of Paris, after the affairs of June 13, and has not since been recommenced.

Proudhon was chosen from Paris to the national assembly at the election held to fill vacancies June 4, 1848; he had 77,094 votes; the highest number of votes given to any candidate was 126,889 for M. Moreau. In the assembly his course has been in harmony with his previous history. Never for an instant has he wavered from the side of the people, and never flinched before opposition, however overpowering

and angry. Next to his devotion to the cause of liberty his chief merit is his perfect frankness. He has no concealments and no compromises, never attempts to pass for anything other than he is, has nothing to do with trick or management. Such as he sees the truth or the fact, so he proclaims it; there are no shades and ambiguities of meaning in his vocabulary; but what he has to say comes bluntly and roughly out. If you agree with it, well; if not, you will feel yourself outraged, perhaps, by the sweeping nature of the statement; to the speaker, personally, it is a matter of little consequence which.

M. Proudhon is about five feet eight inches high, of rather clumsy person. His hair is light, his complexion fresh, his eyes blue and keen, and his nose slightly *retroussé*. His face expresses quickness, intelligence, and confidence. He is not an orator, though at some of the banquets he has been roused to real eloquence; he gesticulates considerably, and without anything like grace. His voice is harsh and unmusical, and his speech distinct and monotonous. He uses no metaphors, never attempts any flights, but goes at his subject in a business-like fashion. When he speaks in the assembly, he always commands attention, and often raises a tempest. But the members never fail to cease their clamor in order that he may go on; they know that they must hear him, and, besides, they are not unwilling to do so, for he never talks at random, says what nobody else would think of, and, when he is done, stops. In the tribune, as well as in the press, he is a man of great originality, complete fearlessness, and of force ever new and active. The conservatives hate him, and fear him more than they hate; they call him bad names; they seek to destroy him. The people love him, not because he is a demagogue, but because he is true. He never seeks their favor, nor the favor of anybody, but says what he believes.

This remarkable man lacks, however, in the practical wisdom which steers through difficulties without running ashore. He is no politician, and has not the politician's tact and

prudence. He is deficient in the love of approbation, and cares too little for others. This was especially manifested in the closing up of the Bank of the People last spring in Paris. The organization had been commenced by him in conjunction with Victor Chipron, Jules Lechevalier, Ramon de la Sagra, and others; but, when he came to be put in prison, he thought it necessary to close it up. Accordingly he himself reimbursed all the subscribers, taking upon his own shoulders the whole expenses and the loss of stopping. But at the same time he published a statement which was not only uncourteous, but positively unkind, towards his former associates, whom he, in fact, charged with stupidity and unfairness. This act lost him many friends, and exhibits the weak side of his character.\*

Great as is the influence Proudhon's books have exercised upon opinion in France, it is as a journalist that he has come most in contact with the people. His paper had a very large circulation; at one time its daily sale was sixty thousand. This was due to him alone, for none of his associates had the talent to gain so wide a circle of readers. The style of his articles could not but arrest the attention of the most indifferent reader, while to the aroused minds of the masses they were like trumpet-blasts in the great battle of the Rich and the Poor. We remember particularly one of his leaders, under the title of *The Malthusians*, which sold fifty thousand extra copies of the paper, it being reprinted the next day to meet the demand. In it he showed how all society was based on the doctrine of the celebrated Englishman, and how statesmen, philosophers, priests, writers, all taught that there were two many human beings on the earth, that the great banquet of nature was not spread for all, and she had no word for the surplus except the command to depart. He showed that there were, in reality, but two parties in the contest of opin-

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\* There are two sides to this. It is necessary to read only Proudhon's defence of his course, to be found in his collected miscellaneous writings, to see that in the main he acted properly.

ion,—the Malthusians and the Socialists. It was such an article as a strong man might write after having let the world's spectacle of misery and wrong sink into his soul. Such indignation, such massive sarcasm, such a stern lighting-up of all the deformities of that vast scheme of plundering the many by the few, we call society! That was a rare article even for Proudhon, but he always wrote with surpassing ability, though often with utter lack of judgment. His attack on Louis Napoleon, which got him in prison, was an instance of this. It did no adequate good, and deprived him of liberty. The thing might have been done less quixotically. There was no question of principle so involved in it as to leave no choice. Had there been, we should call the affair anything but quixotic.

But, after all, M. Proudhon is one of the most noteworthy men of the present French nation, admitting that he has all the faults you please. He is, or is said to be, paradoxical, belligerent, destructive, eccentric, revolutionary, agrarian, infidel, and we know not what else. Such are the accusations leveled against him most zealously indeed, by the privileged classes whose privileges he never spares. We do not now inquire whether these charges are just or unjust. For the present let us judge the man by his usefulness; and in this view it is not too much to say he is a man whom the age could not do without. No single man has done so much as he to prevent France from lapsing into the stagnation of decay, and with France all Europe. Moreover, it is well to bear in mind two things,—namely, that such a contest as is now up in the old world cannot be settled by soft words, but by harsh words that cut through old things like the jagged lightning; and also that such a man as he does not receive justice from his own generation.

One thing must not be omitted before closing our article. The personal character of Proudhon is above reproach; his practical morals are a thousand times more worthy of commendation than those of many men whose praise is in the mouth of every "moderate and honest" conservative.



## NOTE

The principal works written by Proudhon after 1849 are: *The General Idea of the Revolution of the Nineteenth Century* (1851), *The Social Revolution as Demonstrated by the Coup d'Etat* (1852), *Justice in the Revolution and the Church* (1858), and *War and Peace* (1861).

Books came continuously from his pen, which was never idle. He was continuously prosecuted and several times imprisoned. To escape these persecutions he finally went to Belgium, remaining there for some years. The amnesty of 1862 permitted his return to Paris, where he died in 1865 at the early age of fifty-six.

Sixty years after Proudhon's death, his opponents, on whom in a fit of temper he invoked a malediction, are either forgotten or discredited, while his work alone survives. (Editor.)

## II

## PROUDHON'S WORKS

Whoever seeks in Proudhon's books for a complete system will be disappointed. Hitherto his writings have been critical more than constructive. They bristle with ideas and suggestions, like a wheat-field with bearded heads; learning, wit, logic, all are there, and occasionally an imagination equally massive and glowing surprises you with its displays. He appeals for the most part to the judgment of his readers, aiming to convince the understanding, not to influence the feelings. No man has more at heart the elevation of the working classes to that position of dignity and honor which belongs to their office in the social mechanism; none has a keener sense of the wrong under which they have suffered from the time that Labor, wearing the fetters and receiving the stripes of a slave, first commenced the dreary process of sowing that others might be fed, building that others might inhabit, spinning and weaving that others might be clothed. But his books contain no arguments addressed to the benevo-

lence of his readers; hardly any aimed at their sense of justice. He deals with principles and demonstrations, things of the pure intellect, and generally more by negative than positive statements. For the moment he divests himself of all faculties but the logical, and lets nothing pass because it is good or beautiful or universally revered, but stands before it implacably demanding: Can this be proved? When he became a journalist, treating current political topics, he of course changed this method. His paper is consequently made more readable than his books.

His three principal works, whose titles are, *The Creation of Order in Humanity*, *Property*, and *Economical Contradictions*, aspire to the rank of science, passionless and impersonal. They abound in evidences of the former philosophical studies of their author, some of them brilliant in their compact lucidity, as, for instance, the analysis of the great German philosophers which goes before the essay on *Property in the Contradictions*. It would be difficult to find a more striking statement of the kind; it makes what is obscure in itself both intelligible and interesting.

But what most arrests the attention of the hasty reader is the hand, always bold and often irreverent, laid upon what is usually regarded beyond question. Proudhon seems at times as if possessed by the spirit of denial and contradiction, like a special incarnation of Hegel's "immanent negativity." Hence the accusation of atheism,—a charge which we could easily confirm by the quotation of isolated passages or refute by the quotation of others. But such passages belong together with others, and neither those of one side nor the other would, if quoted alone, convey a just idea of their author even as a theologian,—a function which he might have omitted attempting without loss of fame. How he came to attempt it is no concern of ours just at this time. We have now nothing to do with M. Proudhon's transcendental speculations; our business is to try to get at his political economy.

As we said, he has not published any complete system, but his views on important questions may be gleaned without much difficulty here and there.

His fundamental principle is the Equality of Functions. All branches of labor are, he maintains, of the same essential value. We quote from the *Création de l'Ordre dans l'Humanité*:

"What is the comparative measure of values? In other terms, what is for every producer the natural price of the thing he desires to sell relatively to that he desires to buy?

"A. Smith replies: 'The price of each thing is the labor requisite for its production. Accordingly two laborers, by reciprocally estimating their labor, may always find the comparative measure of their products, whatever the value of the articles which they propose to exchange.'

"The error of Smith and those who have followed him is to think that economy becomes more and more remote from its abstract principles as civilization advances; instead of which it is the organic development of Society which renders the application of these principles possible. Yes, the price of everything is the labor necessary to produce it; and, since each laborer is individually paid by his own product, the product of one ought also to be able to pay the labor of another; the only difficulty is to find a comparative measure of values. It will not do to say with Smith: This measure might exist in the savage state, but can be found no longer. Rather let us say: Labor can be equitably valued neither in the barbarous state nor during the ascending period of civilization, nor while there exist those whom pride makes lazy, men incapable through hereditary vice, knaves from intemperance of any sort, traders not controlled by the community; but the time will surely arrive."

This does not mean that every laborer should share equally with all others, which is the doctrine of a school of Communists; no man is less liable to the charge of Communism than Proudhon. He proposes no such arbitrary equality.

He means that the labor of a shoe-maker, for example, is as valuable in itself as that of a goldsmith, clerk, artist, physician, legislator, and that only the accidents of a transitional state of society cause one's work to be valued twice or ten times as high as another's, supposing them equal in talent and industry in their respective employments. It is a sign of great imperfection in the social organization, M. Proudhon would say, when a congressman gets eight dollars a day and a carpenter, who may be vastly superior in his profession to the congressman in his, has to put up with ten and sixpence. This principle, it should not be forgotten, does not preclude the action of natural inequalities of capacity and assiduity, but merely gives them a basis of equality, inequality being, as Proudhon holds, the law of nature always based on its opposite.

This equality—a means, not an end, a mode, not a substance—is an ideal toward which Society moves, but which it cannot at once attain. But what is the means of reaching it? Association. Here Proudhon agrees with the Socialists generally. But he differs from them in the nature of his association and conditions necessary to its establishment. He differs from them all in retaining the separate household, without which, he says, he cannot conceive of woman as occupying a position worthy of society or of herself; from some he differs in preserving the right of inheritances; from the Communists in regard to their grand doctrine; and from the disciples of Fourier by thinking no great things of Fourier's passional theory, as well as by denying that capital is productive or is entitled to any interest whatever. Interest and rent are the illustrations which he claims to have destroyed theoretically. He claims also to know how to destroy them practically without doing any damage to society, but the contrary. But what we have further to say of his theory must be postponed to another occasion, when we will speak of money, credit, and property, and a word concerning his famous adage, *La Propriété, c'est le vol.*

## III

## PROPERTY

We resume our statement of the economical principles of the great French Radical, and, in order to meet the curiosity of our readers, abandon the logical order of their development, and commence with the last and most startling of all his propositions:

"Property, *de facto et de jure*, is contradictory in its nature, and this is the precise ground why it is an actual thing.

"In fact, Property is the right of possession; at the same time it is the right of exclusion.

"Property is the reward of labor; and at the same time the negation of labor.

"Property is the immediate product of society; and the dissolution of society.

"Property is an institution of justice; and PROPERTY IS ROBBERY.

"From all this it follows that property will yet be transformed according to a positive, complete, social, and true idea; whereby, the old institution of property being abolished, it will become equally real and beneficial for all. And the proof of this is, once again, that property is a Contradiction."

Here is the heresy in the very words of the author. It has produced an extensive commotion in the world, whether because it is an unpardonable outrage upon some truth whereof the conservatives are special guardians, or because it drags into the daylight and roughly handles some diseased spot in the social bodies which it is their care to hide, we do not pretend to judge; as to that matter future generations will decide; our business is simply to tell what Proudhon really says and means.

None of the writers who have come up to the defence of Property as it is have stated more ably or clearly than

he the necessity for the institution as the basis and condition of society; none have more insisted on the service which it has rendered to the progress of the human race. What good can be said of it he says again and again. His books are a storehouse of arguments on that side of the question.

But it is the characteristic of ideas and institutions to pass through a state of contradiction, of affirmation and negation, of positive and negative, so to say; and this law applies to the facts of political economy as well as to others. Proudhon was not the first to discover this; common sense has always known it; he is simply entitled to the credit of stating it with great force and distinctness, though, had he made use of a less plain and rude style of speech, he might have said all he has done with comparatively little disturbance. He was, however, born a revolutionist, and things have nourished in him a revolutionary spirit, possibly because the world had need of such a man.

To illustrate this universal presence of the law of contradiction, or of opposites: The invention of machinery is an inestimable benefit to the community, including the laboring classes; but, on the other hand, it throws workmen out of employment, renders their existence precarious, makes them wholly dependent upon the owners of the machines, and necessarily results in pauperism. This is clear to the eyes of all who have eyes to open, and the perception of it is the cause of the attempts that laborers make to destroy machines which, they think, will deprive them of work. What does this indicate? That there should be no machinery, or that pauperism is a good of which we cannot have enough? By no means. It indicates that things are in a state of discord or transition; and,—to borrow an illustration from metaphysics,—just as the contradiction between free will and necessity shows that there is a higher philosophical truth and a more universal formula to be arrived at, which will absorb and reconcile the two, so, in the contradiction between the increase of the aggregate well-being by means of machinery and the corresponding increase of misery by the

same means, is there both the ground and the assurance of the establishment of some new and comprehensive social principle in which that antagonism will disappear. In other words, society will yet be so arranged that machinery will work for the equal good of all, and not bring slavery and want to any.

Now, the same contradiction must attach to property, and the adage of Proudhon merely states it in the strongest language. Yet those who speak of it omit half the proposition, and that the first half, "Property is an institution of justice," in order to dwell on the negative, "Property is Robbery." But, taking both clauses together, this is no more than to say: While the right of possession is founded in absolute justice, and without it society could not exist, in the present state of unrelated and hostile individual interests Property becomes an irresistible means, combining the elements of fraud and violence, of taking from the producers, or from those into whose hands the chances of the battle have flung them, the products of labor without giving a fair equivalent, and quite as often without giving any equivalent at all. Or, as Proudhon has it, Property is Robbery.

"But," exclaim in loud chorus the whole respectable world,—bankers, merchants, manufacturers, and gentlemen of fortune,—"O base and dangerous Proudhon! we are not robbers; our consciences are clean; we fulfil the law, gain legal gains, and plunder no man. Wherefore, then, stir up the ignorant and hungry masses, who, understanding not a jot of thy transcendental notions, thy laws of contradiction and what not, will apprehend only that our comfort and luxury are not fairly earned and their hunger and privation not fairly brought upon them, and will rush with blind and bloody fury to despoil us of what is ours, kill us, and turn our children destitute into the street? Be silent with thy cry of ill omen, or we will proclaim thee a lunatic and a criminal, and put thee in prison while we have the power!"

To such adjurations Proudhon has latterly replied with language of defiance and contempt, but in times past, when

more gently entreated with, he has answered thus: "Friends, I do not accuse you personally; it is only the social fact that I impeach. I doubt not that your consciences are clean, for you do no more than belongs to the institutions under which you were born and brought up. But that does not affect the fact. In Turkey, Carolina, and Louisiana, and some other equally benighted and unfortunate places, men think it no wrong to hold men as property; their consciences are, perhaps, not hurt by it more than is a stone by the blow of a feather. But nevertheless the fact of property in men is robbery of a bad sort. So, too, that baron of the middle ages who descended from his castle to levy on the peasant of the plain, or to relieve the traveler of his surplus funds, suffered nothing in his tough bold conscience, though now-a-days nobody hesitates to call his act by a hard name. And what shall we say of the acts done by the land speculator or the usurer who employs the power of capital to take advantage of others' necessities and get out of them the last cent? Ah, gentlemen, it is not a good sign when you are disturbed by a word. Truth is truth, facts are facts, justice is justice; let us talk plainly. Besides, do you not see that you have had it your way for some centuries? It is high time for the other side of this great economical contradiction to be brought out, if the world is ever to arrive at a solution of it. Read my political economy with attention, and learn the philosophy of the matter, and make fools of yourselves no longer."

The general idea of Proudhon in respect to property is nothing else than its regeneration, if we may venture to use that term. Until this is brought about, there must be both justice and injustice in it; on the one side, the necessary and perfectly true right of possession and enjoyment of the product of our own labor and the gifts of friends; and, on the other side, the plunder of producers and possessors by the rent of land,—in which, as well as in other gifts of nature, he holds no man can justly have absolute and exclusive property,—by fraud, gaming, speculation, tricks of trade, usury, interest,



etc., etc. We conclude this subject with a paragraph translated from the *Contradictions Economiques*:

"Thus property is formed as a matter of convention, which differs as much from justice as eclecticism does from truth, or the real value of a thing does from its market price. In the series of variations which it undergoes between the two extremities of injustice,—namely, rude violence and faithless cunning,—the contending parties continually end by some convention. But justice follows upon their agreement and compels the fulfillment of its conditions; the true law continually evolves itself from the sophistical and arbitrary law, and reform is accomplished through the conflict between intelligence and power. This immense movement, which has its starting-point in the obscurity of savage life and its ending on the day when society rises to the synthetic idea of Possession and of Value, and this mass of changes and of overturnings brought about by the social instinct and perpetually seeking their scientific and definite solution, are what I name the religion of property."

Does this "synthetic idea" mean Communism? No, says our author; it means Reciprocity, Association.

### *Labor and Capital*

Labor is productive; capital is not.

Labor produces capital and consumes it; capital produces nothing.

The laborer without capital would soon supply his wants by its production, for the earth and its energies are for his use, the sun shines to aid his toil, the air gives vitality to his corn and vines, the rain brings forward the harvest, and nature, which has created the sheep, the cow, and the horse for his service, has a thousand hidden forces to be employed by the inventions of his brain; but capital with no laborers to consume it can only lie useless and rot back into the first elements of matter.

But, you say, the laborer with capital produces more than

one without. Therefore capital is productive as the tool and instrument of labor, and I, its owner, am, in strict and absolute justice, entitled to some share of this larger product which the laborer has realized by its aid.

Not so, friend! Your capital has in itself still produced nothing; it has simply enabled the laborer to derive a greater aid from those powers of nature which are free to all men and are ever ready to help industry; it is thus that the product has been increased, and not because your wheat, or wool, or iron, or steel, or the labor heretofore incorporated with them have created anything. Nature and active labor produce; the remains of past labor, called capital, are only capable of being consumed. If the laborer has used anything of yours, let him give you an equivalent therefor; justice demands nothing more.

Perhaps you answer that, if the laborer will not give you more than an equivalent, he shall not have your capital to use, and may see how he will do without it.

That is another matter. We were not speaking of your wishes or of his necessities. It may be better for him to give you an enormous share of his product rather than be deprived of using your surplus; but that has nothing to do with strict justice, and by no means proves that your capital or anybody's else is productive, as we will show you when Labor and Credit and Exchanges—or, in other words, Production, Circulation, and Consumption—are once rightly organized.

Well, if this be so, what then?

Why, interest and rent are not founded in any permanent principle, but merely arise from temporary necessities. By and by men will pay and receive no more of them.

#### IV

#### CREDIT

We trust no man will do M. Proudhon the injustice to suppose that his labor and capital ideas are all condensed

into the brief statement which closed our last article. In that we rather aimed to present the essence of the question than to develop an entire doctrine, or even to hint at any other than the main point of the general argument. By the way, we do not remember to have seen this presented in any chapter or passage of our author's writings, and justice to him requires it to be stated. Did space or time permit us to treat the entire subject thoroughly, we should have taken it up under several distinct heads,—namely: capital is essentially unproductive, and therefore rent and interest are robbery; rent and interest violate the law of fraternity, and cannot do otherwise; the natural increase of wealth tends to their diminution and ultimate disappearance, as is evident from history. They may and will be done away with by the organization of mutual credit, and therefore are intrinsically false.

What is credit?

It is a sort of corollary to the exchange of products, or a kind of second stage of that process. A has a bushel of wheat which he does not need and which B needs, but B has nothing at present to give in exchange for it. A lets him have it, and receives his promise to deliver an equivalent at some future time, when he shall have produced it. Such is the operation of credit, which arose soon after the first commencement of exchanges. Presently it assumed a new feature, which may be illustrated thus: B needs A's bushel of wheat and has an article produced by himself, but cannot divide it so as to render an equivalent, or does not wish to dispose of it at present, and accordingly takes the wheat on credit. Thus credit is the giving of one product in consideration of the future return of another yet to be produced, or which is already produced, but not on the spot or in a condition which will allow it to be delivered. The uses and advantages of this operation are well known, and need no explanation.

All credit presupposes labor, and, if labor were to cease, credit would be impossible.

What, then, is the legitimate source of credit? Who ought to control it? And for whose benefit should it most directly be used?

The laboring classes.

But, instead of credit being governed by the producers in a nation, it is always in the hands of the intermediaries, the exchangers and agents of circulation; and, instead of being used to aid the workers, it is generally used to make money,—*i. e.*, to get the greatest possible amount of the products of labor for the least return, and, if possible, for none at all. And it is manifest that, if the working classes could once gain possession of this great instrument, which rightfully belongs to them, they might escape from the necessity of working for others, or, in other words, of giving the larger part of their products for the use of capital; they might become the owners of the tools they use, become emancipated from the domination exercised over them by their agents and public servants, set up for themselves, and enjoy the fruit of their industry.

But how can they gain possession of this instrument?

By the organization of credit, on the principle of reciprocity or mutualism, if we may use a new word. In such an organization credit is raised to the dignity of a social function, managed by the community; and, as society never speculates upon its members, it will lend its credit, not as our banks do theirs, so as to make seven per cent or more out of the borrowers, but at the actual cost of the transaction. A practical illustration of the above-named principle in a similar matter may be found in the system of mutual insurance.

### *Money*

The precious metals have an intrinsic value, which grows out of their uses in the arts, and another value as the representative of other products. It is only in their latter capacity that they are called money. Their use in that capacity is easy to account for. Their compactness and in-

destructibility naturally led the world to fix on them for such a purpose.

But, as the aggregate of products and of exchanges enlarged, it was found that gold and silver were inadequate for the transaction of business, and the social genius produced the bill of exchange and the bank-note. This was a great invention, whose benefits are not generally understood, whereby commerce and, consequently, both production and consumption were vastly increased, and with them human well-being.

Still, though a new sort of representative was apparently introduced, in reality there was no change. The bill of exchange was and is only a species of shadow, the representation of a representative, gold and silver remaining as the actual medium of circulation.

The difficulties which belong to the use of gold and silver as money are these:

1. They are articles of commerce as well as representatives, whereas a representative of values should have no other character, and be useful for no other purpose.

2. The quantity of gold and silver not being proportioned to the amount of products to be represented and put into circulation, while at the same time the circulation cannot be performed without them, it follows that whoever can get control of the specie of the world can rule the markets with despotic hand, and may work his will upon communities and nations; and also that such a monopoly of the circulating medium can be effected with an ease almost infinitely greater than a monopoly of any other article of general use. And thus specie money, from being a convenient medium of circulation, has become the tyrant of both the production and the consumption of the world.

3. By means of this tyranny labor is kept in subjection; financial speculations, stock-jobbing, and usury are perpetrated; and interest is maintained at a ruinous rate in every country. Destroy it, and a monopoly even more unjust and pernicious than the monopoly of the soil—that other great

outrage upon natural justice—is destroyed, and society is relieved of scores of parasites, who go back to useful occupations, since they are no longer able to live upon the industry of others.

The question then arises whether any other basis than gold or silver can be found for the circulation. M. Proudhon says yes.

Gold and silver feed and clothe and shelter no man; they are good to the mass of people merely because they can be exchanged for food and clothing and shelter. If we, then, can discover anything which shall be equally or more portable, equally certain of being everywhere received in exchange for all products, and at the same time safe from being monopolized, we shall accomplish a great good, and the precious metals may be dispensed with except for their original uses. Is such a circulating medium possible in connection with such a system of credit as that of which we have above given the general features? In other words, can Production, Circulation, and Consumption be organized upon the principle of Mutualism, Reciprocity, Solidarity?

M. Proudhon's answer to this question will be found in our article in which we describe the Bank of the People.

## V

### BANK OF EXCHANGE

We have stated some of the main points of Proudhon's political economy to be:

1. Equality of functions, or of different employments.
2. Non-productivity of capital.
3. Mutualism of credit, or credit at cost.

In his pamphlets and in the earlier numbers of his paper he gives the name of Bank of Exchange to the practical institution by which he proposes to realize the idea of credit at cost, or, as he expresses it, mutual and gratuitous credit.

That idea is original with him, though some of the other

schools claim to have the hint of it in their systems; but he is the man who first conceived and developed it positively and clearly, which is what constitutes an original invention. An institution actually carrying it out with success, and loaning money, everywhere current, not at a high rate of interest, but at the actually trifling cost of transacting its business operations and covering contingencies, would afford the most conclusive proof of the non-productivity of capital; that is to say it would prevent rents from rising above the mere cost of keeping the premises rented in repair, and would totally abolish usury and interest; for, if a man can borrow, without interest, the notes of a bank which are of universal currency and perfectly guaranteed, he will not go to his neighbor and ask credit of him with interest, nor hire his land or his house at any more than it may cost to preserve the same in good condition; and thus, rent and interest being abolished, where remains any productivity of capital? People will then not accumulate wealth as they do now in order to lend at interest, that they may enjoy the fruit of others' toil, themselves doing nothing, but the products of labor, no longer hoarded by the few, will be exchanged and enjoyed by the many; and everywhere new wants in the masses will give a new stimulus to productive industry, which will thrive accordingly to an extent of which, in the present state of monopoly, we have no conception, and there will be universal abundance and satisfaction; and then whoever wishes to enjoy must labor therefore in some useful vocation, as music, literature, or blacksmithing, or carpentry, or some other. And so there will at last be gained an equilibrium of values, or just relation of different branches of labor to each other; or, in other words, the equality of functions will be established, and the trades of shoemaker, governor, artist, farmer, etc., be equally remunerated, and that not by arbitrary enactment, but by the natural tendency and effect of the laws which rule in political economy as well as elsewhere. Such are the ideas of Proudhon. Their final expression is the institution of mutual credit, whose members—and it

should include the whole productive part of the community—combine to lend each other the credit of the institution at cost, just as the members of a mutual insurance company combine to afford each other at cost the guaranty of the company against loss of property by fire or otherwise. The principle is precisely the same in both cases.

The Bank of Exchange is composed of men engaged in productive labor, who, feeling the abuses attached to the fiction which makes gold and silver the basis of the circulation, associate themselves together to restore the real basis,—namely, consumable products; and, feeling the evils which result from the monopoly of credit in the hands of the non-producing class, they determine to abolish the same.

The institution of mutual credit has two phases: the one is during the time of its formation, before the whole body of producers is completed. In the former gold and silver are required for partial use; in the latter they are dispensed with.\*

Let us suppose a community in which are men pursuing all branches of useful industry—and by the word useful we mean to include the fine arts with the trades producing articles of luxury and elegance—whatever beautifies as well as what supports life—farmers, mechanics, manufacturers, housekeepers, schoolmasters, artists. They form an institution of mutual credit, or Bank of Exchange; it issues its notes, loaning them to A, B, and C as they are wanted and as security is given. Every man in the community belongs to the bank, and is bound to receive the notes in exchange for whatever he has to dispose of. They are, in fact, payable at the farm or the workshop of every one of the members, not in gold and silver, but in consumable products; and indeed they are not bank-notes, but bills of exchange, drawn, so to say, on every member of the bank, and bearing the signatures of

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\* It must not be inferred from this that Proudhon expected to dispense with a standard of value. He did contemplate, however, the gradual disappearance of gold and silver as actual circulating media, and his fundamental financial principle is the use of all products of stable value (including gold and silver) on an equal footing as security for currency.



every other. They are true representatives, since they stand directly for articles of use. And, as the bank is formed by the whole community, not for the especial advantage of any individual or class, but for the mutual benefit of all, of course no interest is exacted on loans, except enough to cover risks and expenses. Thus, while every man is left free to follow his own productive business in his own way, and the principle of individual liberty suffers no diminution, there is a complete reciprocity established throughout.

The point where a true reform of society must commence is the function of exchanges, for that is the point where economic relations converge. By introducing mutualism into exchanges and credit we introduce it everywhere, and labor will assume a new aspect and become truly democratic. Thus the problem of the present times will be solved, and the republic of wealth appear, completing the circle of the Revolution.

"The republic of wealth," asks, perhaps, some anxious conservative, "what is that? the equal division of the goods of the world among all its inhabitants? the robbing of the few for the many?" "Not so," replies our author, "O man of much respectability but of little brains, talking of robbing, when thy hoards are filled with riches gotten at the corn mart and the stock exchange! But, as the Revolution has destroyed the tyranny of the Church and the tyranny of the State (though just now some of our French addle-pates are seeking to resuscitate them, especially the latter), so it must destroy the tyranny of capital,—that is, of property. We have established, more or less thoroughly, equality before the divine law, which is the republic in matters of religion; equality before human law, which is the republic in matters political; now let us have equality before fortune, which is the republic in matters of industry and enjoyment; equal opportunities of producing, equal protection in enjoying, and no more luxury to which useful labor has not established a right." "That is a hard saying," says the questioner, and goes his way.

The Bank of Exchange implies, then, the combination of the whole producing community for the purpose of mutual credit and the establishment of a sound medium of exchange, or, as we say, of circulation. We trust our explanation of this conception of mutualism of credit, hasty as it has been, has been sufficient to make our readers understand it. To our thinking it is a grand and fruitful idea,—indeed, the great idea of modern economic science. Some may cavil, and that with just ground, at the details of the organization which we have hinted at rather than described, but we shall reckon him but a bold sophist who, with any comprehension of the principle, will presume to assail it.

But how shall this bank be established in our present world as it is in Paris, for instance? There are two ways, says Proudhon. The better way is for the government to do it; let it take the Bank of France, repaying its stockholders, and convert it into the Bank of Exchange, the notes being a legal tender as they now are.\* Let the rate of interest be reduced, but yet kept sufficiently high to meet the expenses of the government, thereby dispensing with the whole business of tax-assessing and tax-gathering; two or three per cent would be enough to do that at the beginning, and thereafter still further reductions might be made; the revenue would then be collected more surely and without its being felt by the payers; all branches of industry now languishing because the gold and silver that formed the basis of the circulation had been withdrawn and hidden through fear of the revolution by those who controlled them would be revived by suitable loans; neither honest labor, nor the State, need then ever again to fall into the clutches of the usurers; and, instead of passing through a period of depression, want of employment and of bread among the working classes, with ruinous experi-

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\* Proudhon never favored mutual banking through the State save as a measure of transition and expediency. And even in that aspect he came later to disapprove it, relying on private initiative and free competition for the realization of his views. As a believer in the abolition of the State, government banking was necessarily objectionable to him.

ments of national workshops and insurrections and bloodshed, followed by a powerful reaction against the new institutions of the country, the republic could at once have entered upon a career of active industry, prosperity, peace, and progress.

To all this and much more like it but one reply could be made,—namely, assignats, irredeemable paper money, speculation, expansive bankruptcy; as though France were not already in the premonitory pangs of bankruptcy and requiring some heroic operation to prevent dissolution.

Well, continues our economist, if you will not allow the State, which, after all, is nothing but the community taken collectively, to undertake this reform we must begin at the other end. We must appeal to individuals, and, if possible, bring together a sufficient body to undertake the work.

In the summer of 1848 Proudhon was constantly occupied with the discussions of the assembly, and, though his paper constantly put forward his economic theories in one form or another, nothing was done toward making a practical experiment of mutual credit. Through the spring he had daily published an appeal to those who desired to engage in establishing the Bank of Exchange, but it was not productive of any actual result.

Early in the autumn Jules Lechevalier, who is already somewhat known to American Socialists, came to these conclusions:

1. The principle of mutual credit is true;
2. But it is impossible to introduce mutualism into the function of circulation without organizing both production and consumption on the same basis. Labor and commerce must be reformed by means of association as well as banking;
3. Because, if labor be not organized, the laborers will be made to toil for others to receive the fruit thereof as heretofore; and, if commerce be not organized, the consumers will be imposed on and defrauded by the agents of exchange as heretofore; and, moreover, the circulating medium, no

matter what its basis, will be liable to be monopolized and to become an instrument of oppression as heretofore, causing great wrongs and calamities;

4. Therefore let us found an institution having three divisions,—namely, the Association for Mutual Credit, the Syndicate of Production, and the Syndicate of Consumption; and to the whole we will give the name of the Bank of the People.

Proudhon is a man weakly jealous in respect to what he considers his intellectual offspring, and will not readily accept any other doctrine in connection with his own. He was invited to the meeting of the Workmen's Association, called to consider this new plan, and came. M. Lechevalier opened the discussion with a statement of his views as lucid as it was modest and appropriate, attributing to Proudhon all that was original in the design and nominating him as chairman. From that time the enterprise, with Proudhon at its head, was steadily carried forward, many other men of talent, such as Ramon de la Sagra and Victor Chipron, a workman possessing one of the clearest and most intelligent heads in Paris, participating in it, till the condemnation of Proudhon for a libel on President Bonaparte caused him to end his connection with the project and repay the subscriptions which had been made toward its realization.

In his letter announcing this determination, published in the *Peuple* of April 12, 1849, he betrays a weak and ungenerous distrust of his associates, together with a jealousy of what they had added to his theory.\* It has been said that

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\* See foot-note on page 11. Proudhon consented to embody the Syndicates of Production and Consumption in the project of the Bank of the People simply to humor those of his associates who placed stress on these features. He did not consider them of any value,—in fact he looked upon them as surplusage,—but he knew that they could do no harm while he was at the head of the firm of P. J. Proudhon & Co., the legal name of the Bank of the People. When, because of his imprisonment, he was unable longer to exercise an active control, he preferred to wind up the concern rather than see it come to grief in the hands of his associates, who, however worthy personally were not, as he was, practically and thoroughly versed in business and finance. In this decision he showed sound judgment.

he also defrauded the subscribers to the Bank of the People. That is a falsehood. He insisted on paying them all,—himself, from his private resources, bearing all expenses, in which was included a year's rent of the office of the Bank, with fixtures, books, etc., complete for carrying on its business.

The plan was afterwards resumed by Lechevalier, Chipron, and others under a form somewhat modified, and with the support of the Democratic party and the workmen of Paris and other large cities of France, but nothing was ever accomplished, and finally the affair of June 13, 1849, dispersed the leaders and ended the undertaking. In our next article we will give a thorough account of the organization and arrangements of the proposed institution. It is worthy of study, not only as an illustration of some of the profoundest principles of social economy, but as a chapter in the history of the times.

## VI

### THE ORGANIZATION OF INDUSTRY

The purpose of the Bank of the People is, as we have seen, the emancipation of labor and the consequent establishment of the republic of wealth. To accomplish this it organizes industry, banking, and commerce, or, as the economists would say, Production, Circulation, and Consumption, on the threefold principle of Liberty, Equality, and Reciprocity. We will take up these three functions separately, treating, for the sake of convenience, the first and third before the second.

#### *The Syndicate of Production*

There are in Paris some 150,000 workmen, a third or half of whom are already organized in associations for the prosecution of their various trades. Their progress has been most encouraging, proving in a very conclusive way that the workmen of Paris not only possess much skill in practical affairs, but that labor, which, with the help of nature, has

produced all the wealth there is in the world, is abundantly sufficient to its own emancipation, provided there be unity of purpose and wisdom of direction among the laborers.

Now, important as are these associations, it is manifest that the work is but half done when they are formed and successfully in operation. They do, indeed, to a great extent abolish the exploitation of the employed worker by the employing capitalist, and make the worker his own employer; but, in order to completely gain that end, the associations must be associated, united in one body for mutual aid, protection, and guidance, and for the increase of the common force. It is the business of the Syndicate of Production to establish such a union, and draw forth all its advantages.

The Syndicate of Production is a sort of central committee, or board of directors, chosen by the various bodies of workmen to represent and take care of the interests of the producing class. Its duty is to complete the organization in one body, which shall be governed according to universal suffrage, of all that class, whether now members of associations, carrying on business as employers, or laboring each for himself; to favor and assist the formation of industrial associations; to negotiate and guarantee what loans such associations may need of the Bank; to serve as a central point and agency of relations and intercourse between different branches of work; to supervise the quality of the articles produced; to organize and direct among the various trades and associations a system of mutual insurance against all kinds of losses whose value can be estimated; to encourage inventions and improvements; to procure on the best terms the right of using inventions; to guard against suffering on the part of those whose occupations are superseded by the introduction of new machines and processes; to organize apprenticeship, so that the youth may be enabled, as far as possible, to learn a trade suited to his or her natural aptitudes, and so that each corporation in need of apprentices may have them, to organize a central fund for pensions to superannuated workmen; to seek for a mode of so combining different

occupations as to avoid evils arising from the necessary suspension of certain trades during parts of the year; to obviate the bad effects which the extreme division of labor has upon the workmen, etc.

In a word, the producers being organized in one body, the Syndicate of Production is the provident head and executive hand thereof.

### *The Syndicate of Consumption*

It is a notorious fact that working people and poor people pay dearer for the necessaries of life than any class beside. Other persons can take advantage of favorable states of the markets, buy in large quantities and of the best dealers; but laborers, having nothing beforehand, receiving small wages, and of necessity living from hand to mouth, can do none of these things. They buy the poorest and most adulterated articles of the most unconscionable retailers, at times when prices are high, as well as when they are low, and always at rates whose enormity is proportioned to the smallness of the quantity which they purchase at once. They pay in proportion far more for rents, fuel, lights, clothing, and food than those who lie in perfumed chambers, whose meats are fat, whose drink is red and sparkling, and whose vesture is sumptuous and soft. On the poor the abuses of the prevailing system of commerce, everywhere bad enough, work their utmost mischief. This must be remedied.

We have already seen the producers combined for the function of production or in labor; the matter now in hand is to combine them for the supply of their wants. The Syndicate of Consumption is designed to perform that office.

It will procure the erection of great combined houses where there will be excellent and healthy accommodations for families and for single persons at low rents; it will establish bakeries, meat markets, fruit shops, groceries, and will open in Paris and elsewhere stores, and will buy at wholesale in the best markets and on the best terms all articles of necessity, and will also receive the same on consignment, taking

care that they shall be unadulterated and good, and will furnish them at cost, adding enough to cover expenses and risks, *to those who come to buy them with the notes of the Bank*, but not to those who come with specie money. And all other articles, not of common necessity, it will procure and deliver to order on the same terms.

It will establish depots for the deposit of all kinds of materials for all trades, receiving them on consignment and selling them on commission; and will make arrangements by which it will be able to supply whatever of that sort may from time to time be wanted; and such articles it will also, in all cases, furnish on better terms upon payment in the notes of the Bank than otherwise.

It will open accounts with the different associations and with the Syndicate of Production for such materials furnished for manufacture, and will also make advances of materials to the Syndicate of Production on consignments of manufactured articles, and in union with that board will exercise a supervision over the quality and the price of products.

In a word, it will labor to produce the most direct relations possible between the producer and the consumer, and to free both from the imposition of a vast horde of irresponsible intermediaries, whose constant aim is to buy for what costs 10 to produce, and sell it again for 20—with nothing but the insufficient check of competition to save both producer and consumer from being exorbitantly fleeced by every transaction. The Syndicate of Consumption will interpose a new check, though of course they will not attempt to overrule the law of supply and demand, and competition will still have a good chance to do what good it can. But what is obvious is that, under such an arrangement as that we have described, associations of workmen are secured the home market. They get the custom of the whole body of their brethren, which is no small thing; others will also buy of them, because they will sell good articles cheap.

Let these things once get fairly at work, and what becomes



of the world? It is transformed. And for misery there is abundance, and for want satisfaction, and for ignorance intelligence, and for fraud uprightness, and for war peace.

### *The Bank*

The Bank undertakes all the operations belonging to the function of Circulation, and undertakes more than an ordinary bank. It discounts the obligations of commerce, collects and transmits funds, makes advances on annuities, on mortgages, on consignments, on industrial enterprises (of course in all such cases paying out its own notes), receives deposits, whether of the savings of individual workmen, or of associations, or the money of other parties, etc. Though serving specially as the agent of the workmen, the Bank is entirely independent of them, does not participate in their enterprises, and is in no wise responsible for any of their losses. Even the Syndicates of Production and Consumption, though in the most intimate relations with the Bank, are individually distinct from it, each having for the purpose of its first organization its own particular capital.

There is no exclusion in the formation of the Bank; all classes and all individuals may participate in its advantages. All persons may become what are called "adherents," or members,—that is, may agree to receive its notes in exchange for such articles as they may have to dispose of, also agreeing to purchase of other members what they have to buy. It is plain that, if adherents, using the notes, can buy cheaper than without them, everybody will desire to enjoy that benefit, and their general circulation will be insured; and that even individual dealers will sell cheaper to fellow members is plain from the fact that they will be controlled by the Syndicate of Consumption, with its great stores and depots.

What is the guaranty of these notes?

At the very start, in the mere infancy of the institution, they are guaranteed by these fifty to a hundred thousand workmen,—not as so many individuals, but as members of a compact and most efficient industrial organization, whereby

they not only are justly paid, but produce more than under the old system. Moreover, this guaranty is constantly strengthened by the organization of similar bodies in all parts of the country, and by the steady growth of the operations of the Bank, which, from the necessity of things, if conducted with only tolerable skill and judgment, must soon include the whole productive industry of the nation in its sphere of action and as the elements of its power of usefulness.

What the Bank issues in its notes is the credit of the people organized and employed for the benefit of the people, and impregably fortified on each side by the organization of labor and of commerce. And let it be borne in mind that *productive industry is the only real basis of credit*. You may set up any number of fictions in regard to the matter, but this is always the truth at the bottom. The difference between the Bank of the People and the old financial system is that in the former the credit of the community is controlled and used by the community solely for the furtherance of industry and the increase of its return to the industrious, while in the latter the same credit is ingeniously monopolized by a few, and used as an irresistible machine for levying upon industry the most exorbitant tribute for the benefit of the monopolizers. This is the fact in a nut-shell. Of all monopolies that of credit and the circulating medium is the worst.

Let us sum up these statements.

By means of associations combined through the Syndicate of Production, industry is so organized that the product goes to the producer.

By means of the Syndicate of Consumption, the producers and consumers are brought into direct relations; the poor buy on as good terms as the rich; the workman is enabled to procure materials as well as the capitalist; frauds and adulterations are prevented; the number of agents of exchange is reduced to what is necessary; and, in a word, commerce becomes a strictly social function, regulated, like the man-

agement of schools, by the wishes and for the benefit of the community.

By means of the Bank, a circulating medium is afforded, having the best possible guaranty, at the same time that it possesses the capacity of varying in quantity according to the necessities of the public, which silver and gold cannot,—wherein lies one ground of the evil connected with their use; the rate of interest is reduced to the cost of managing the business and meeting the contingencies of the Bank,—and that, let it be remembered, not nominally by an ineffectual usury law, but in fact; and, interest being thus reduced to cost, which, in an institution covering a whole country, like France, and transacting all its business, as the Bank of the People in time surely would, would be the merest trifle,—say, one-half of one per cent.,—rents would at once fall to their just and natural level, and nobody would be able to make money by owning and letting houses or lands; and at the same time the great function of credit and circulation would be in the hands of the producing class, who must also be the consuming class, and all speculating and living upon them would be at an end.

Such are the fundamental institutions of the republic of wealth. Let the reader ponder them. They are worthy of reflection.

#### *How the Bank of the People Was to Be Organized*

Though the Bank of the People, as an institution of mutual credit and exchange, will need no gold and silver as the instrument of its transactions when it is fully in motion, and when the whole nation are brought into it, it must at the outset be able to pay, specie for its notes wherever specie is demanded. The Syndicates of Production and Consumption must also have a money capital, in order to efficiently commence their operations, and until the notes of the Bank shall have attained a general currency.

The capital necessary for these purposes it was proposed

to raise by shares bearing no interest and receiving no dividends. Of course only those interested in the realization of the scheme would subscribe. The capital of the Bank was fixed at 5,000,000 francs, in shares of 5 francs each, operation to commence when 50,000 francs were subscribed and paid in; that of the Syndicate of Production at 1,000,000 francs, to commence when 25,000 were paid in; and that of the Syndicate of Consumption at 3,000,000 francs, of which the payment of 50,000 was requisite to begin business. Moreover, as soon as operations were commenced, a considerable amount of specie would constantly flow into the chest of the Bank from the wages of workmen, from other money brought to be exchanged for its notes, from deposits of savings, etc.

The subscription had begun, and, though not large, a sum would probably have been raised sufficient to start with, had not Proudhon's sentence for libel put an end to the execution of the scheme. It is now abandoned, or, rather, a better time is waited for; permanently laid aside it cannot be; the movement at Paris is too strong to allow ideas so broad and fruitful to fail of a result. In one form or another they will ere long be tried.

In this exposition our purpose has been more to set forth general principles than to explain particulars, though of the latter we have endeavored to omit nothing essential. Indeed, the details are not in all cases yet worked out, and, where they are so, are perhaps often imperfect. The grand scheme of labor, finance, and commerce, organized by association, is what we have endeavored to make plain, together with the beneficial consequences to be expected therefrom. We ask the attention of our readers to the whole, but particularly to the reform of circulation and credit. In our judgment that is a subject which demands most careful consideration, especially in this country, for the circulation is the life-blood of the whole economic and industrial system, and interest of money constantly devours the fruit of industry. It is a stern and undeniable fact that a country which pays even

five per cent interest, to say nothing of the rates of Wall street, must from time to time commit bankruptcy, in order to rid itself of a burden of debts which it cannot discharge, its entire property having already passed into the hands of the creditors. The fact has hitherto not received the attention it merits, only because the creditors are in most cases within the country itself.



THE SOLUTION OF THE SOCIAL PROBLEM

FROM THE WORKS OF P. J. PROUDHON





THE SOLUTION OF THE SOCIAL PROBLEM  
FROM THE WORKS OF P. J. PROUDHON

I

THE SOCIAL IDEAL\*

THE ideal republic is an organization which leaves all opinions and all activities free. In this republic, every citizen, by doing what he wishes and only what he wishes, participates directly in legislation and in government, as he participates in the production and the circulation of wealth. Here, every citizen is king; for he has plenitude of power, he reigns and governs. The ideal republic is a positive anarchy. It is neither liberty subordinated *to* order, as in a constitutional monarchy, nor liberty imprisoned *in* order. It is liberty free from all its shackles, superstitions, prejudices, sophistries, usury, authority; it is reciprocal liberty and not limited liberty; liberty not the daughter but the *mother* of order.

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It has been proved that Socialist doctrines are powerless to relieve the people in the present crisis.† Utopia needs for its realization capital accumulated, credit opened, circulation established and a prosperous state. It has need of everything we now lack; and these it is powerless to create.

It has been proved that political economy, both descriptive

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\* From Proudhon's volume on *The Solution of the Social Problem*.

† The crisis was that of March, 1848—which enabled Proudhon to epitomize the Social Problem and point the way out in the exact terms of the moment.

and *routinière*, is as impotent as Socialism in the present situation. The school which is based wholly upon the principle of supply and demand would be without means or power on the day when everybody would demand and nobody would want to supply.

It has been proved, finally, that dictatorships, seizure of power, and all revolutionary expedients, are powerless against the universal economic paralysis, as moxa is without action on a corpse.

At present the field is open to other ideas, public opinion calls for them, their sway is assured. I no longer hesitate to propose that which speculative study of social economy shows me is most applicable to the situation in which we find ourselves; it rests with you, citizen reader, to see in my proposition a goal for our future.

Work is at a standstill—it must be resumed.

Credit is dead—it must be resuscitated.

Circulation is stopped—it must be reestablished.

The market is closed—it must be reopened.

Taxes never suffice—they must be abolished.

Money hides itself—we must dispense with it.

Or better still, since we should express ourselves in an absolute manner, for what we are going to do today must serve for all time:

Double, triple, augment labor indefinitely, and in consequence the products of labor;

Give credit so broad a base that no demand will exhaust it;

Create a market that no amount of production can supply;

Organize a full, regular circulation, which no accident can disturb.

Instead of taxes, always increasing and always insufficient, abolish all taxes;

Let all merchandise become current money, and abolish the royalty of gold.

But I must point out in advance some of the prejudices which, as the result of long habit, prevent us, at this time, from seeing the true cause of the evil, and from discerning

the remedy. To be on the look-out for error is to be half the way along the road which leads to truth.

The first of these prejudices consists in the desire to reform everything in detail, instead of attacking the whole; in taking up difficulties one after another, and resolving them in turn in the way common sense seems to indicate: whereas economic questions, essentially contradictory in themselves and among themselves, must be solved all at once, through some dominant principle which respects all rights, ameliorates all conditions, and conciliates all interests.

Another prejudice is the one which, attributing the cause of poverty to the imperfect organization of labor, concludes that labor should be regimented; that it is in that part of the social organism—labor—that the remedy should be applied. People will not understand that human labor and individual liberty are synonymous; that, except for fairness in exchange, the liberty of labor must be absolute; that governments exist only to protect free labor, not to regulate and to restrain it. When you speak in this way of organizing labor, it is as if you propose to put a strait-jacket on liberty.

A third prejudice, resulting from the preceding one, is that which, suppressing individual initiative, would seek to obtain everything through authority. One can say that this prejudice is the leprosy of the French spirit. We ask the State for everything, we want everything from the State; we understand only one thing, that the State is the master and we are the servants. The analogy to this prejudice, in the field of economics, is that which makes gold the universal motivating force. Gold is for us the principle of production, the sinew of commerce, the substance itself of credit, the king of labor. That is why we all worship gold even as we worship authority.

It is the business of the State, I repeat, only to pronounce on the justice of economic relationships, not to determine the manifestations of liberty. Also in the matter of justice, the state has only the right to enforce the general will.

A fourth prejudice, finally, and the most deplorable of all, is that which, under the pretext of harmony and fraternity, tends to destroy in society the divergence of opinion, the opposition of interests, the battle of passions, the antagonism of ideas, the competition of workers. It is nothing less than the motion and life that would be thus cut off from the social body. Therein lies the fatal error of communism.

A great effort of reflection is, however, not necessary to understand that justice, union, accord, harmony, fraternity itself, necessarily presupposes two opposites; and that, unless one falls into the absurd notion of absolute identity, that is to say, absolute nothingness, contradiction is the fundamental law, not only of society, but of the universe.

That is also the first law which I proclaim, in agreement with religion and philosophy: that is Contradiction—the universal Antagonism.

But, just as life implies contradiction, contradiction in its turn calls for justice; which leads to the second law of creation and humanity: the mutual interaction of antagonistic elements, or *Reciprocity*.

Reciprocity, in creation, is the principle of existence. In the social order, reciprocity is the principle of social reality, the formula of justice. It has for its basis the eternal antagonism of ideas, of opinions, passions, capacities, temperaments, interests. It is the condition of love itself.

*Reciprocity* can be expressed in the precept: *Do unto others as you would have them do unto you*: a precept which political economy has translated into this celebrated formula: *Products exchange for products*.

It is therefore not the *organization of labor* which we need at this moment. The organization of labor is the proper object of individual liberty. He who works hard, gains much. The State has nothing further to say, in this respect, to the workers. What we need, that which I call for in the name of all workers, is reciprocity, equity in exchange, the *organization of credit*.

## II

## CREDIT\*

*Origin and Development of the Idea of Credit*

The point of departure of credit is money. By a combination of happy circumstances, the value of gold and silver having been the first to be constituted, money became the symbol of all doubtful and fluctuating values; that is to say, those not socially constituted or not officially established. It was there demonstrated how, if the value of all products were once determined and rendered highly exchangeable, acceptable, in a word, like money, in all payments, society would by that single fact arrive at the highest degree of economic development of which it is capable from the commercial point of view. Social economy would no longer be then, as it is today, in relation to exchange, in a state of simple formation; it would be in a state of perfection. Production would not be definitely organized, but exchange and circulation would, and it would suffice for the laborer to produce, to produce incessantly, either in reducing his costs or in dividing his labor and discovering better processes, inventing new objects of consumption, opposing his rivals or resisting their attacks, for acquiring wealth and assuring his well being.

We have pointed out the lack of intelligence of socialists in regard to money; and we have shown in going back (to the origin of this contrivance) that what we had to repress in the precious metals is not the use, but the privilege.

Indeed, in all possible societies, even communistic, there is need for a measure of exchange, otherwise either the right of the producer, or that of the consumer, is affected. Until values are generally constituted by some method of association,

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\* From *The System of Economical Contradictions*, vol. ii, chap. x.

there is need that one certain product, selected from among all others, whose value seems to be the most authentic, the best defined, the least alterable, and which combines with this advantage durability and portability, be taken for the symbol, that is to say, both for the instrument of circulation and the standard of other values.

It is, then, inevitable that this truly privileged product should become the object of all the ambitions, the paradise in perspective of the worker, the palladium of monopoly; that, notwithstanding all warnings, this precious talisman should circulate from hand to hand, concealed from a jealous authority; that the greater part of the precious metals, serving as specie, should be thus diverted from their real use and become, in the form of money, idle capital, wealth outside of consumption; that, in this capacity as instrument of exchange, gold should be taken in its turn for an object of speculation and serve as the basis of a great commerce; that, finally, protected by public opinion, loaded with public favor, it should obtain power, and by the same stroke destroy the social fabric! The means of destroying this formidable force does not lie in the destruction of the medium—I almost said the depository; it is in generalizing its principle. All these propositions are admitted as well demonstrated, and as strictly linked together, as the theorems of geometry.

Gold and silver, that is to say, the merchandise whose value was first constituted, being therefore taken as the standard of other values and as universal instruments of exchange, all commerce, all consumption, all production are dependent on them. Gold and silver, precisely because they have acquired in the highest degree the character of sociality and of justice, have become synonyms of power, of royalty, almost of divinity.

Gold and silver represent commercial life, intelligence and virtue. A chest full of specie is an arch saint, a magic urn that brings wealth, pleasure and glory to those who have the power to draw those things from it. If all the products of labor had the same exchange value as money, all the workers

would enjoy the same advantages as the holders of money: everyone would have, in his ability to produce, an inexhaustible source of wealth. But the religion of money cannot be abolished, or, to better express it, the general constitution of values cannot function except by an effort of reason and of justice; until then it is inevitable that, as in polite society, the possession of money is a sure sign of wealth, the absence of money is an almost certain sign of poverty. Money being, then, the only value that bears the stamp of society, the only merchandise standard that is current in commerce, money is, according to the general view, the idol of the human species. The imagination attributing to the metal that which is the effect of the collective thought toward the metal, every one, instead of seeking well being at its true source,—that is to say, in the socialization of all values, in the continuous creation of new monetary figures—busies himself exclusively in acquiring money, money, always money.

It was to respond to this universal demand for money, which was really but a demand for subsistence, a demand for exchange and for output, that, instead of aiming directly at the mark, a stop was made at the first term of the series, and, instead of making successively of each product a new money, the one thought was to multiply metallic money as much as possible, first by perfecting the process of its manufacture, then, by the facility of its emission, and finally by fictions. Obviously it was to mistake the principle of wealth, the character of money, the object of labor and the condition of exchange; it was a retrogression in civilization to reconstitute value in the monarchical régime that was already beginning to change. Such is the mother idea which gave birth to the institutions of credit; and such is the fundamental prejudice, which error we need no longer demonstrate, which antagonizes in their very conceptions all these institutions.

But, as we have often said, humanity, even when it yields to an imperfect idea, is not mistaken in its views. However, one sees, strange to say, that, in proceeding to the organiza-

tion of wealth by a retreat, it has operated as well, as usefully, as infallibly as possible, considering the condition of its evolutionary existence. The retrogressive organization of credit as well as previous manifestations of economics, at the same time that it gave to industry new scope, had caused, it is true, an aggravation of poverty; but finally the social question appeared in a new light and the contradictions, better known today, give the hope of an immediate and complete solution.

Thus the ulterior object, hitherto unperceived, of credit is to constitute, with the aid and on the prototype of money, all the values still fluctuating whose immediate and avowed end is to furnish to that combination the supreme condition of order in society and of well being among the workers, by a still greater diffusion of metallic value. Money, the promoters of this new idea tell us, money is wealth; if then we can provide every body with money, plenty of money, all will be rich: and it is by virtue of this syllogism that institutions of credit have developed everywhere.

But it is clear that, to the extent that the ulterior object of credit presents a logical, luminous and fruitful idea, conforms, in a word, to the law of progressive organization, its immediate end, alone sought, alone desired, is full of illusion and, by its tendency toward the status quo, of perils. Since money as well as other merchandise is subject to the law of proportionality, if its quantity increases and if at the same time other products do not increase in proportion, money loses its value, and nothing, in the last analysis, is added to the social wealth; if, on the contrary, with specie production increasing everywhere, population following at the same rate, there is still no change in the respective position of the producers, in both cases, the solution required does not advance a single step. *A priori*, then, it is not true that the organization of credit, in the terms in which it is proposed, contains the solution of the social problem.

After having related the development of and the reason for the existence of credit, we have to justify its appearance,



that is to say, the rank to which it should be assigned in the category of science. It is here above all that we have to point out the lack of profundity and the incoherence of political economy.

Credit is at once the result and the contradiction of the theory of markets, since the last word, as we have seen, is the absolute freedom of trade.

I have said from the first that credit is the consequence of the theory of markets, and as such already contradictory.

At this point in this history of society, both real and fanciful, we have seen all the processes of organization and the means of equilibrium tumble one upon the other and reproduce constantly, more arrogantly and more murderously than before, the antinomy of value. Arriving at the sixth phase of its evolution, social genius, obedient to the movement of expansion that pushes it, seeks abroad, in foreign commerce, the market, that is to say, the counterpoise which it lacks. Presently we shall see it, deceived in its hope, seek this counterpoise, this output, this guarantee of exchange that it must have at any price in domestic commerce, at home. By credit, society falls back in a manner on itself: it seems to have understood that production and consumption are for it identical and inadequate things; it is in itself, and not by indefinite ejaculations, that it ought to find the equilibrium.

### *Contradictions in the Idea of Credit*

Credit is the canonization of money, the declaration of its royalty over all products whatsoever. In consequence, credit is the most formal denial of free trade, a flagrant justification on the part of the economists, of the balance of trade. Let the economists learn, then, to generalize their ideas, and let them tell us why, if it is immaterial for one nation to pay for the goods which it buys with money or with its own products, it always has need of money? How can it be that a nation which works, exhausts itself? Why is there always a demand from it for the only product that

it does not consume, that is to say, money? How all the subtleties conceived up to this day for supplying the lack of money, such as bills of exchange, bank paper, paper money, do nothing but interpret and make this need more evident?

In truth, the free trade fanaticism, which today distinguishes the sect of economists, is not understandable, aside from the extraordinary efforts by which it tries to propagate the commerce of money and to multiply credit institutions.

What then, once more, is credit? It is, answers the theory, a release of engaged value, which permits the making of this same value, which before was sluggish, circulable; or, to speak a language more simple: credit is the advance made by a capitalist, against a deposit of values of difficult exchange, of the merchandise the most susceptible of being exchanged, in consequence the most precious of all money, money which holds in suspense all exchangeable values, and without which they would themselves be struck down by the interdiction; money which measures, dominates and subordinates all other products; money with which alone one discharges one's debts and frees oneself from one's obligations; money which assures nations, as well as individuals, well being and independence; money, finally, that not only is power, but liberty, equality, property, everything.

This is what the human species, by an unanimous consent, has understood; that which the economists know better than any one, but what they never have ceased combating with a comical stubbornness, to sustain I know not what fantasy of liberalism in contradiction to their most loudly confessed principles. Credit was invented to assist labor, to bring into the hands of the laborer the instrument that destroys him, money: and they proceed from there to maintain that, among manufacturing nations, the advantage of money in exchange is nothing; but that it is insignificant in balancing their accounts in merchandise or specie: that it is low prices alone that they have to consider!

But if it is true that, in international commerce, the

precious metals have lost their preponderance, this means that, in international commerce, all values have reached the same degree of determination, and like money, are equally acceptable; in other words, that the law of exchange is found, and labor is organized, *among the various nations*.

Then, let them formulate this law; let them explain that organization, and, instead of talking of credit and forging new chains for the laboring class, let them teach, by an application of the principle of international equilibrium, all the manufacturers who ruin themselves because they are not exchanging, teach those workers, who die of hunger because they have no work, how their products, how the work of their hands are values which they can use for their consumption, as well as if they were bankbills or money. What! this principle which, following the economists, rules the trade of nations, is inapplicable to private industry! How is this? Why? Some reasons, some proofs, in the name of God.

Contradiction in the idea itself of credit, contradiction in the project of organizing credit, contradiction between the theory of credit and that of free trade: is this all for which we have to reproach the economists?

To the thought of organizing credit, the economists add another idea no less illogical. It is that of making the State organizer and prince of credit. "*It is for the State,*" said the celebrated John Law, before the creation of national workshops and of the republicanization of industry, "*it is for the State to give credit and not to receive it.*" Superb maxim, made to please all those who revolt against financial feudalism, and who would replace it by the omnipotence of government; but it is an equivocal maxim, interpreted in opposite senses by two kinds of persons; on one side the politicians of the public treasury and of the budget, who resort to any means to bring the people's money into the coffers of the State, because they alone can do so; on the other side, the partisans of initiative—I almost said of governmental confiscation—by which the community alone can profit.

But science does not inquire what pleases, it seeks what is possible; and all our feelings against bankers, our absolutist and communist tendencies, cannot prevail in its eyes upon the inmost reason of things. Now the idea of deriving all credit from the State, and consequently all guaranties, can be expressed in the following question:

The State, an unproductive organism, an entity without property and without capital, cannot offer anything as security for a mortgage except its budget; always a borrower, always bankrupt, always in debt, it cannot involve itself, without involving everyone with it. In consequence, the lenders themselves, outside of it, finally developed spontaneously all the institutions of credit. The State, by its resources, its guaranty, its initiative, the solidarity that it imposes, can it become the universal partner, the author of credit? And if it could, would society tolerate it?

If this question were answered in the affirmative, it would follow that the State possesses the means to answer the prayer of society manifested by credit, when, renouncing its utopia of enfranchising the proletariat by the freedom of trade, and turning suddenly around, it seeks to re-establish the equilibrium between production and consumption by a return of capital to the laborer who has produced it. The State in constituting credit would have obtained the equivalent of the constitution of values; the economic problem would be settled, labor freed, poverty diminished.

The proposition to make the State at once source and distributor of credit, notwithstanding its despotic-communistic tendency, is, therefore, of supreme importance, and merits all our attention.

To treat it, not to the extent that it merits (because at the point where we have arrived, the economic questions have no limit), but with profundity and generality, which alone can supply all the details, we shall divide it into two periods: one, which includes all the past of the State relatively to credit; the other, which will have for its object to determine what the theory of credit means, and in conse-

quence what can be expected of an organization of credit, either by the State or by free capital.

If to appreciate the power of organization which it has pleased the economists, in recent times, to attribute to the State in the matter of credit after having refused to do so in the matter of industry, it sufficed to invoke precedents, our case against our adversaries would be simple, requiring only that instead of arguments we oppose them with what would affect them more—experience.

It is proved, we would tell them, by experience, that the State has no property, no capital, nothing, in a word, on which it can base its letters of credit. All that it possesses, in movable and immovable values, have long been pledged: the debts that it has contracted are over and above its assets, and consequently the nation pays in France over four billions interest on it. If, therefore, the State were to become the organizer of credit, the banker, it cannot become such with its own resources, but rather with the money of its customers; from which we must conclude that, in the system of the organization of credit by the State, by virtue of a certain imaginary or assumed solidarity, what belongs to the citizens belongs to the State, but not reciprocally; and that the governor of Louis XV was correct in saying to that prince, in showing him his realm; "All this, sire, belongs to you."

Not only is property a nullity in the State; with it production no longer exists. The State is unproductive; through it no industry is exercised whose anticipated benefits could give value and security to its bills. It is thereafter universally recognized that all that is produced by the State, whether in works of public utility, or in objects of domestic or personal consumption, costs three times as much as it is worth. In a word, the State, as the unproductive organ of the government, as producer, lives only on subventions. How, by what magic virtue, by what unheard of transformation, can it become all at once the dispenser of capital, since it does not have a single *centime*? How could the State,

absolutely unproductive, to whom, accordingly, savings are essentially antipathetic, become the national banker, the universal partner?

### III

#### A THEORY OF MUTUALITY\*

If I am not mistaken, the reader ought to be convinced at least of one thing, that social truth cannot be found either in utopia or in routine: that political economy is not the science of society, but contains, in itself, the materials of that science, in the same way that chaos before the creation contained the elements of the universe. The fact is that, to arrive at a definite organization, which appears to be the destiny of the race on this planet, there is nothing left but to make a general equation of our contradictions.

But what will be the formula of this equation?

We already foresee that there should be a law of *exchange*, a theory of *mutuality*, a system of guaranties which determines the old forms of our civil and commercial societies, and gives satisfaction to all the conditions of efficiency, progress and justice which the critics have pointed out; a society no longer merely conventional, but real, which makes of the subdivision of real estate a scientific instrument; that will abolish the servitude of the machines, and may prevent the coming of crises; that makes of competition a benefit, and of monopoly a pledge of security for all; which by the strength of its principles, instead of making credit of capital and protection of the State, puts capital and the State to work; which by the sincerity of exchange, creates a real solidarity among the nations; which without forbidding individual initiative, without prohibiting domestic economy, continuously restores to society the wealth which is diverted by appropriation; which by the ebb and flow of capital, assures political and industrial equality of the citizenry, and,

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\* From *The System of Economical Contradictions*, vol. ii, chap. xiv.

through a vast system of public education, secures the equality of functions and the equivalence of aptitudes, by continuously raising their level; which through justice, well-being and virtue, revives the human conscience, assures the harmony and the equality of the people; a society, in a word, which, being at the same time organization and transition, escapes what has taken place, guarantees everything and compels nothing.

The theory of *mutuality*, or of *mutuum*, that is to say, the natural form of exchange, of which the most simple form is loan for consumption, is, from the point of view of the collective existence, the synthesis of the two ideas of property and of communism, a synthesis as old as the elements of which it is constituted, since it is nothing more than the return of society to its primitive custom, through the maze of inventions and of systems, the result of a meditation of six thousand years on the fundamental proposition that A equals A.

Everything today is making ready for this solemn restoration; everything proclaims that the reign of fiction has passed, and that society will return to the sincerity of its nature. Monopoly is inflated to world-wide proportions, but a monopoly which encompasses the world cannot remain exclusive; it must republicanize itself or be destroyed. Hypocrisy, venality, prostitution, theft, form the foundation of the public conscience; but, unless humanity learns to live upon what kills it, we must believe that justice and expiation approach. . . .

Already socialism, feeling the error in its utopias, turns to realities and to facts, it laughs at itself in Paris, it discusses in Berlin, in Cologne, in Leipzig, in Breslau; it murmurs in England, it thunders on the other side of the ocean; it commits suicide in Poland, it tries to govern in Berne and in Lausanne. Socialism, in pervading the masses, has become entirely different: the people will not bother about the honor of schools; they ask for work, education, well being, equality; the system does not matter so much, provided that the

result is obtained. But when the people want something, and it is only a question of finding out how to obtain it, the discovery does not wait; prepare yourself to see the coming of the grand masquerade.

## IV

## THE BANK OF EXCHANGE \*

Public credit organized, labor restored and value decreed, nothing is left but to organize circulation, in the absence of which production is impossible.

This point is the summit of the revolution.

We have driven out the last of our kings, we have cried: Down with monarchy! Long live the Republic! But you can believe me, if the doubt has come to you, there are in France, there are in all Europe only a few lesser princes. Royalty is always in existence. Royalty will subsist as long as we will not have abolished it in its most material and most abstract form—the royalty of gold.

Gold is the talisman which congeals life in society, which binds circulation, kills labor and credit, and makes slavery mutual.

We must destroy the royalty of gold; we must republicanize specie, by making every product of labor ready money.

Let no one be frightened beforehand. I by no means propose to reproduce, under a rejuvenated form, the old ideas of paper money, money of paper, assignats, bank-bills, etc., etc.; for all these palliatives have been known, tried and rejected long ago. These representatives on paper, by which men have believed themselves able to replace the absent god, are, all of them, nothing but a homage paid to metal—an

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\* Here Proudhon presented his theory of the basic cause of the Social Problem and coupled with it the solution in the project of a Bank of Exchange of universal application. (Editor.)



adoration of metal, which has been always present to men's minds, and which has always been taken by them as the measure or evaluator of products.

Let us return to our principle.

Let us now deal with the problem of the creation of a bank, considered no longer as a business house, but as an organ of credit, that is to say, in the new light as an organ of exchange, as an organ of circulation.

### *The Bill of Exchange*

Everybody knows what a bill of exchange is. The creditor requests the debtor to pay to him, or to his order, at such a place, at such a date, such a sum of money.

The promissory note is the bill of exchange inverted; the debtor promises the creditor that he will pay, etc.

"The bill of exchange" says the statute, "is drawn from one place on another. It is dated. It announces the sum to be paid; the time and place where the payment is to be made; the value to be furnished in specie, in merchandise, in account, or in other form. It is to the order of a third person, or to the order of the drawer himself. If it is by 1st, 2nd, 3d, 4th, etc., it must be so stated."

The bill of exchange supposes, therefore, *exchange*, *provision* and *acceptance*; that is to say, a value created and delivered by the drawer; the existence, in the hands of the drawee, of the funds destined to acquit the bill, and the promise on the part of the drawee, to acquit it. When the bill of exchange is clothed with all these formalities; when it represents a real service actually rendered, or merchandise delivered; when the drawer and drawee are known and solvent; when, in a word, it is clothed with all the conditions necessary to guarantee the accomplishment of the obligation, the bill of exchange is considered *good*; it circulates in the mercantile world like bank-paper, like specie. No one objects to receiving it under pretext that a bill of exchange is nothing but a piece of paper. Only—since at the end of its

circulation, the bill of exchange, before being destroyed, must be changed for specie—it pays to specie a sort of seigniorial duty, called *discount*.

That which, in general, renders the bill of exchange insecure is precisely this promise of final conversion into specie; and thus the idea of metal, like a corrupting royalty, infects even the bill of exchange and takes from it its certainty.

Now, the whole problem of the circulation consists in generalizing the bill of exchange; that is to say, in making of it an anonymous title, exchangeable forever, and redeemable at sight, but only in merchandise and services.

Or, to speak a language more comprehensible to financial adepts, the problem of the circulation consists in *basing* bank paper, not upon specie, nor bullion, nor immovable property, which can never produce anything but a miserable oscillation between usury and bankruptcy, between the five-franc piece and the assignat; but by basing it upon *products*.

I conceive this generalization of the bill of exchange as follows:

A hundred thousand manufacturers, miners, merchants, commissioners, public carriers, agriculturists, etc., throughout France, unite with each other in obedience to the summons of the government and by simple authentic declaration, inserted in the *Moniteur* newspaper, bind themselves respectively and reciprocally to adhere to the statutes of the Bank of Exchange; which shall be no other than the Bank of France itself, with its constitution and attributes modified on the following basis:

1st. The Bank of France, become the Bank of Exchange, is an institution of public interest. It is placed under the guardianship of the state and is directed by delegates from all the branches of industry.

2nd. Every subscriber shall have an account open at the Bank of Exchange for the discount of his business paper; and he shall be served to the same extent as he would have been under the conditions of discount in specie; that is, in the known measure of his faculties, the business he does,

the positive guarantees he offers, the real credit he might reasonably have enjoyed under the old system.

3rd. The discount of ordinary commercial paper, whether of drafts, orders, bills of exchange, notes on demand, will be made in bills of the Bank of Exchange, of denominations of 25, 50, 100 and 1,000 francs.

Specie will be used in making change only.

4th. The rate of discount will be fixed at — per cent, commission included, no matter how long the paper has to run. With the Bank of Exchange all business will be finished on the spot.

5th. Every subscriber binds himself to receive in all payments, from whomsoever it may be and at par, the paper of the Bank of Exchange.

6th. Provisionally and by way of transition, gold and silver coin will be received in exchange for the paper of the bank, and at their nominal value.

Is this a paper currency?

I answer unhesitatingly, No! It is neither paper money, nor money of paper; it is neither government checks, nor even bank-bills; it is not of the nature of anything that has been hitherto invented to make up for the scarcity of specie. It is the bill of exchange generalized.

The essence of the bill of exchange is constituted—first, by its being drawn from one place on another; second, by its representing a real value equal to the sum it expresses; third, by the promise or obligation on the part of the drawee to pay it when it falls due.

In three words, that which constitutes the bill of exchange is *exchange, provision, acceptance*.

As to the date of issue, or of falling due; as to the designation of the places, persons, object—these are particular circumstances which do not relate to the essence of the title, but which serve merely to give it a determinate personal and local actuality.

Now, what is the bank-paper I propose to create?

It is the bill of exchange stripped of the circumstantial

qualities of date, place, person, object, term of maturity, and reduced to its essential qualities—*exchange, acceptance, provision.*

It is, to explain myself still more clearly, the bill of exchange, payable at sight and forever, drawn from every place in France upon every other place in France, made by 100,000 drawers, guaranteed by 100,000 indorsers, accepted by the 100,000 subscribers drawn upon; having provision made for its payment in the 100,000 workshops, manufactories, stores, etc., of the same 100,000 subscribers.

I say, therefore, that such a title unites every condition of solidity and security and that it is susceptible of no depreciation.

It is eminently solid; since on one side it represents the ordinary, local, personal, actual paper of exchange, determined in its object and representing a real value, a service rendered, merchandise delivered, or whose delivery is guaranteed and certain; while on the other side it is guaranteed by the contract, *in solido*, of 100,000 exchangers, who, by their mass, their independence, and at the same time by the unity and connection of their operations, offer millions of millions of probability of payment against one of non-payment. Gold is a thousand times less sure.

In fact, if in the ordinary conditions of commerce, we may say that a bill of exchange made by a known merchant offers two chances of payment against one of non-payment, the same bill of exchange, if it is indorsed by another known merchant, will offer four chances of payment against one. If it is indorsed by three, four or a greater number of merchants equally well known, there will be eight, sixteen, thirty-two, etc., to wager against one that three, four, five, etc., known merchants will not fail at the same time, since the favorable chances increase in geometrical proportion with the number of indorsers. What, then, ought to be the certainty of a bill of exchange made by 100,000 well-known subscribers, who are all of them interested to promote its circulation?

I add that this title is susceptible of no depreciation. The reason for this is found, first, in the perfect solidity of a mass of 100,000 signers. But there exists another reason, more direct, and, if possible, more reassuring; it is that the issues of the new paper can never be exaggerated like those of ordinary bank-bills, treasury notes, paper money, assignats, etc., for the issues take place against good commercial paper only, and in the regular, necessarily limited, measured and proportionate process of discounting.

In the combination I propose, the paper (at once sign of credit and instrument of circulation) grows out of the best business-paper, which itself represents products delivered, and by no means merchandise unsold. This paper, I affirm, can never be refused in payment, since it is subscribed beforehand by the mass of producers.

This paper offers so much the more security and convenience, inasmuch as it may be tried on a small scale, and with as few persons as you see fit, and that without the least violence, without the least peril.

Suppose the Bank of Exchange to start at first on a basis of 1,000 subscribers instead of 100,000; the amount of paper it would issue would be in proportion to the business of these 1,000 subscribers, and negotiable only among themselves. Afterwards, according as other persons should adhere to the bank, the proportion of bills would be as 5,000, 10,000, 50,000, etc., and their circulation would grow with the number of subscribers, as a money peculiar to them. Then, when the whole of France should have adhered to the statutes of the new bank, the issue of paper would be equal, at every instant, to the totality of circulating values.

I do not conceive it necessary to insist longer. Men acquainted with banking will understand me without difficulty, and will supply from their own minds the details of execution.

As for the vulgar, who judge of all things by the material aspect, nothing for them is so similar to an assignat as a bill of the Bank of Exchange. For the economist, who searches

the idea to the bottom, nothing is so different. They are two titles, which, under the same matter, the same form, the same denomination, are diametrically opposed to each other.

There are two kinds of counter-revolutionists, according to whether we judge the counter-revolution from a political or from an economic point of view.

The first kind comprises all those who call themselves republican-*democrats*, because of an apparent opposition to the republican-*monarchists*, their opponents and their competitors.

We have said before that all economic negations overlap one another and generalize themselves, especially in the negation of money considered as an emblem of value and instrument of exchange. There are few economists today who, upon reflection, do not admit the possibility of such a reform; but it is no less true that in the theory of the old political economy—the highly praised English political economy, which they strive to implant among us as they already have implanted constitutional monarchy—the idea of abolishing specie is supremely absurd, as absurd as the thought of abolishing property.

Finally, it is objected that all bank paper is necessarily based on security either of specie or of bullion, or on personal or real values, realizable in coin. Outside of this there is nothing but collusion and fraud. Even now one sees bank paper diminishing in value, losing in confidence and falling below par, inasmuch as they have as security real estate, on which it is difficult to realize, or which has a possibility of depreciation. It is always money which determines the value of bank notes; consequently the axiom: no money, no credit; no credit, no circulation; no circulation, no work, is an absolute truth.

### *Products Exchange for Products*

*Products exchange for products:* This aphorism of political economy is no longer contradicted. Socialists and econo-

mists are in accord with the fact and the law; it is common ground where theories are reconciled, and opinions unite on the same doctrine.

Exchange is direct or indirect: What must we do to make possible direct exchange, not only among three, four, six, ten or one hundred traders, but among one hundred thousand, between all producers and all consumers?

Simply this: centralize all the operations of commerce by means of a bank in which all the bills of exchange, drafts and sight-bills representing the bills and the invoices of merchants, will be received. Then generalize or convert these obligations into paper of equivalent value, which, in consequence, will itself be a pledge of the products or real values that these obligations represent.

Bank paper so issued would have all the qualities of first class paper.

It would not be subject to depreciation since it would be delivered only against actual values and acceptable bills of exchange, and would be based, not on manufactured products, but on products sold and delivered, for which payment would be required. There would be no danger of excessive emission, since they would be delivered only against first class commercial paper—that is to say, against promises of certain repayment.

No one would refuse it, since, by the fact of the centralization of exchanges, all citizens would become members of the bank. The most remarkable fact to be noted in this constitution of the bank is not so much the idea in itself, an idea more simple perhaps than the one which gave birth to money, but the coincidence of the employment of specie with the régime of feudal property and with the monarchical organization of society.

We have pointed out several times and we cannot repeat it too often: as long as the family had to live, by its own activity and like a little world in itself, on property, property has been the principle and the cornerstone of the social order.

During that period, the infrequency of exchanges, the scarcity of transactions, called exclusively for the employment of specie. The agent of circulation had to carry in itself its guarantee so as to be accepted. That was the age of gold, even as it was the age of royalty.

But when, by the multiplicity of labor, by the division of industries, by the frequency of exchanges, circulation became the principal factor in the economy of nations, individual property became, as we have said, an obstacle to collective life, and the employment of specie became nothing but the sign of privilege and of despotism, the same as the royal prerogative was the sign of corruption and of tyranny.

Therefore, society, in its development, destroys or transforms its former work. It is when we have acquired full knowledge of this law that revolutions can come peacefully.

Royalty, property, specie, they are the monarchical trinity which we have to demolish, they are the triple negation which sums up for us entirely the revolutionary movement begun in February.

Because, as we shall prove, all negation—that is to say, all reform in religion, philosophy, rights, literature, art—brings us to the negation of property, and, property abolished, we shall see what we want to put in place of property, in place of authority, in place of God.

All this posited, and for the better understanding of what will follow, we place before our readers the project, as we had planned it, of a Bank of Exchange.

### *General Objects of the Bank of Exchange*

The undersigned, merchants, artisans, contractors, manufacturers, proprietors, economists, lawyers, professors, writers, artists, laborers, and producers of all kinds, of every condition and profession, and all those who subscribe to the present by-laws, constitute themselves a commercial association under the name National Association of the Bank of Exchange.

The object of the Association is:



First, Particularly and immediately, by the institution of the Bank of Exchange, to procure for every member of the Association, without the aid of specie, all products, whether commodities, merchandise, services or labor.

Second, Ultimately, reorganize agricultural and industrial labor, by changing the condition of the producer.

The association is universal. All citizens, without exception, are invited to join. No funds are required; for membership it will suffice to sign the present by-laws, and to agree to accept, for all payments, the paper of the Bank of Exchange.

The association has no capital.

Its existence is perpetual.

The Bank of Exchange is an essentially Republican Institution, and is an active protest against any re-establishment of hierarchical and feudal principles: it is, in fact, the abrogation of all civil and political inequality. With the privilege of gold abolished, all privileges disappear. The equality in exchange, necessarily resulting from the mutuality of exchange, becomes in its turn the basis of the equality of labor, of real solidarity, of personal responsibility, and of absolute liberty. The Bank of Exchange, finally, is the principle, the means and the measure of wealth, of universal and perpetual peace.

### *Constituent Principles of the Bank of Exchange*

The principles of the National Association of the Bank of Exchange are as follows:

To work is to produce wealth from nothing.

To extend credit is to facilitate exchange.

To exchange is to create capital.

The method of the Association is reciprocity.

The Bank of Exchange is therefore a credit institution destined to effect the exchange of all products without the use of specie and as a result the unlimited multiplication of products without the backing of specie.

Instead of specie, the Bank of Exchange uses its notes.

This paper does not represent specie, like ordinary bank notes, but represents the various individual obligations of the members of the Association and the various products which they have pledged as security.

The notes of The Bank of Exchange, first accepted by all the members, circulate from hand to hand and serve to buy the products of the various members; in a word, they replace money as means of exchange.

The circulation can never be inflated, inasmuch as it is issued proportionally to the *delivery* of products and in exchange for warehouse receipts and other obligations resulting from such deliveries.

Finally, depreciation is impossible, since the paper is always secured by the product against which it is issued, and by the responsibility of the producer and his endorsers.

The Bank of Exchange will not make any profits.

### *Circulating Notes*

The paper of the Bank will be called circulating notes.

The various denominations of these circulating notes will be 20, 100, 500 and 1000 francs.

The circulating notes are perpetually exchangeable at sight at the Bank and receivable by all members for merchandise and services of every kind. Reciprocally, goods and services of all kinds are perpetually exchangeable at the Bank for the circulating notes.

The circulating notes are not redeemable in specie.

Coin shall be used only in making change.

### *Operations of the Bank of Exchange*

The principal operations of the Bank of Exchange are:

1. The emission of a currency called circulating notes.
2. The discount of commercial two-name paper of any maturity.
3. The discount of orders and acceptances.
4. Buying and selling of consignments.
5. Secured open accounts.

6. Loans on mortgages to landowners and farmers.
7. Payments and collection free of cost.
8. Encouragement of joint stock companies.

Only the members of The Bank of Exchange are entitled to these benefits.

### *Discount*

Discount consists in exchanging the less well known paper of the individual members which has only an individual character for the paper of the Bank which is well known.

In all other banks, where discount is made in specie or in bank bills representing specie, there is a deduction from the face of the note, a toll taken in the name of that sovereign known as gold.

In the Bank of Exchange, where the circulation is effected without an intermediary, where the only money is a token not of gold, but of manufactured, delivered and accepted products, where payment is guaranteed by the producer, the consumer and all the endorsers; where, finally, by the mutuality of acceptance, every trader reciprocally acts with the Bank as a stockholder and as a capitalist, no discount is deducted but only a commission charged to defray the cost of conducting the Bank.

This commission is fixed provisionally at *one per cent* per annum.

The Bank will discount only bills or obligations representing products accepted or sold, delivered or immediately deliverable.

It will discount two-name paper of all maturities.

Discount credit is unlimited for real transactions; that is to say, for those for which there is previous acceptance of products by an actual buyer.

The notes or obligations with two signatures must always specify the kind or the quantity of goods for which they have been given.

All fraud and dissimulation committed in this connection will be prosecuted as forgery.

The Bank by this very means receives at a discount accepted orders and invoices.

### *Sales and Purchases of Consignments*

The operation of sales and purchases of consignments is a means of lessening the congestion of warehouses, and to come to the aid of commerce and of industry, glutted with unsold products.

The Bank buys for  $1/2$ ,  $2/3$ ,  $3/4$ , or  $4/5$  of the cost of manufacture according to the circumstances and the nature of the goods from members and consigns them under the act of privileged deposit (Article 1932 of the Civil Code).

Until the time fixed by the letter of consignment, the consignee has the right to sell on the best possible terms and will not be held for more than the amount advanced by the Bank.

After maturity the Bank will sell the consignment at public auction, to members or to others who wish to benefit thereby.

The excess of the price realized by the sale over the price fixed by the terms of the consignment shall be paid to the consignor, after a commission of 5 per cent on the said excess shall have been paid to the Bank for its services.

After the sale is made, the holder of the consignment must deliver the goods consigned.

The State for its bonds, the manufacturers for their products, the merchants for their goods, the workers for their labor, the artists for their works, the proprietors for the rental of their apartments, houses, lands, machines; the holders of titles to income, all citizens, in a word, can benefit by this contrivance of obtaining loans; and, reciprocally, all can benefit in obtaining a great reduction in the price of raw materials, as on the rental of machines and the hire of services, which they need in order to produce economically.

### *Secured Open Account*

The Bank furnishes credit on open account.

The sole guaranty asked by the bank is to provide two or more sureties, as the Bank may deem prudent and necessary.

The sureties are jointly and severally liable.

The Bank accepts as sureties only members of the Association.

In case of nonpayment on the part of the borrowing member, the Bank will negotiate with the sureties, in a friendly way, for its reimbursement.

### *Loans on Mortgages*

The Bank loans to land owners and farmers, on time notes and notes payable in annual installments.

Long term notes and installments are secured by mortgages or by obligations analogous to those of sales and purchases on consignment of merchandise.

The Bank buys property on time at  $3/4$  of its value, and consigns it to the proprietor, who becomes manager and responsible for its administration, while he enjoys all its products.

If at maturity the proprietor has not repaid the loans made to him, the Bank takes the property, and provides for its exploitation.

The proprietor in default has the privilege of the occupation and use of his property, for himself and his heirs, as tenant or manager, on conditions established by the bank.

### *Credits on Accounts Current*

The Bank makes payments and collections gratuitously for all its members, in Paris and the provinces.

It opens for that purpose an account with each member. A simple transfer from one account to another suffices to balance the greater part of these payments.

### *Limited Joint Stock Companies*

The Bank of Exchange by its influence promotes, creates, counsels, encourages, disburses, by virtue of its knowledge,

by its advances, all agricultural, manufacturing, commercial and scientific enterprises, etc., all efforts of associations of laborers, and organizations of workingmen, who, in everyday dealings, promise sufficient guaranties of success.

The Bank of Exchange, representing the most general interests of the country and being the tool of the collective judgment, is free from all predilection for any system. It has neither sympathy or antipathy for any idea, or for any school; and does not express any opinion on any doctrine.

Moreover, the Bank of Exchange, as the special organ of circulation and of credit, the point of convergence of all productive forces, does not devote itself to any enterprise; it does not mingle either directly or indirectly, in any trade, or in any business of whatever kind. It does not accept or submit to any responsibility except for those of its own operations.

It limits itself to passing upon the projects submitted to it, according to elementary principles of production or of distribution and consumption of wealth, representing itself as a type of an organization wherein liberty, equality, reciprocity, and impartiality are to be found in the highest degree.

#### *Organization and Administration of the Bank*

The Bank of Exchange has its principal office at Paris. It has a branch in each district.

The Bank of Exchange is an institution of public interest; as such, it is under the surveillance, but independent, of the State.

The State is a member of the same standing as all citizens. It takes no part in the management, and does not interfere directly or indirectly with its administration.

The State promises to receive the Bank's paper in payment for all public dues.

As a compensation, the Bank makes such loans to the State as the latter may need *without interest* on the sole condition of repayment in installments.

The amount of these advances is nevertheless provisionally limited to 500 millions.

The administration of the Bank is in the hands of a Board of Directors under the supervision of a Council of Surveillance.

### *The Board of Directors*

The Board of Directors will be composed, at first, of the four principal founders of the Bank of Exchange.

The State is considered as an honorary founder, but it cannot become a member of the Board.

The Board of Directors superintends all the operations of the Bank. It can buy, sell, exchange, rent and lease, receive and pay, give receipts and releases, consent to all subrogations and compositions, renounce all privileges, release all titles, seizures and transactions, make all affirmations of credit, prosecute, compromise and negotiate in the name of the Association, and generally decide on all measures necessary for the welfare of the Association.

Special rules will define and limit the powers of the managers.

The Board of Directors makes the rules for the branch banks and by its instructions directs the operations of the branches.

It appoints and discharges the employees and agents of the Bank, fixes their salaries, commissions and gratuities.

The members of the Council of Administration will freely distribute the administrative functions among themselves, divided as follows:

1. General Direction;
2. Signing of documents and correspondence;
3. Discount;
4. Accounting and litigation.

The members of the Board are elected for five years by the General Assembly and are eligible for re-election.

Temporarily, they will not receive any salary. They will share, as remuneration, a part of the net proceeds of each

transaction. This commission will be fixed by the regular governing committee, who also shall determine, at the same time, the bonuses to be allowed to all employees and agents of the Bank, over and above their salaries, and also the disposition of all surplus funds.

Any member of the Board of Directors can be suspended from his office by the Council of Surveillance and can only be reinstated by a two-third vote of the General Assembly.

### *The Council of Surveillance*

The Council of Surveillance shall be elected annually by the General Assembly.

It is composed, like the General Assembly itself, of delegates chosen by all branches of production and of the public service. The number of these delegates shall not at any time exceed thirty.

The State shall be represented by the Minister of Justice, who shall be chairman of the Committee by virtue of his office in the Government.

The Council of Surveillance shall have the absolute right of control.

This right can be exercised individually by each member of the Council, who can at any time examine the cash on hand, the records, the correspondence, the agreements and the portfolios both at Paris and in the provinces.

The greatest publicity shall be given by the Council of Surveillance to the condition of the Bank.

The Council of Surveillance is limited in the right of control, and shall not interfere in any way with the administration, nor participate in any act of management.

It has the right to convoke the General Assembly in extraordinary session, and to request the resignation of any or all of the members of the Board.

### *The General Assembly*

The General Assembly is composed of the entire membership, who shall have a right to be present and take part.



They may delegate their powers and may be represented by proxy.

When, by the adherence of all producers to the Bank of Exchange, the General Assembly will become equal and identical with the totality of citizens, it will be composed of none but the representatives of production, named by each industry, the number of which shall be in proportion to its importance.

The General Assembly, thus composed, representing the general welfare and no longer the selfish interests, will be the true representative of the people.

The General Assembly shall meet on the first day of May of every year.

Its order of business shall be:

1. To hear the statment of the Board of Directors.
2. To hear the report of the Council of Surveillance.
3. To adopt, reject or modify this report.
4. To proceed with the election of members of the Board of Directors.
5. To elect the new delegates for membership of the Council of Surveillance.
6. To ratify the applications for loans made to the Association either by individuals or by companies, or by the State.
7. To regulate the rate of discount for the coming year.

The convocation and sessions of the General Assembly shall be governed by the rules ordinarily in use by commercial assemblies. A two-thirds majority shall rule.

Independently of the annual meeting of the General Assembly, special meetings may be called, either by the Board of Directors or by the Council of Surveillance.

#### *Extension of the Organization*

On the proposal of the Board of Directors, or on the request of the Council of Surveillance, changes can be made in the existing by-laws, by the General Assembly, in order that all agricultural, manufacturing, commercial companies,

corporations and associations, etc., may be placed under the patronage of and in partnership with the Association.

*Balance Sheet of the Bank of Exchange*

We will now compute the profits and losses that labor must unjustly bear from the use of metallic capital.

In our preceding articles, we proved that all methods of philosophic—and, we may add, mathematical—investigation proceed necessarily by elimination or negation that such is the revolutionary method by which society progresses, incessantly abolishing its own institutions, and securing the unlimited establishment of liberty.

According to this conception of progress, the ultimate goal of civilization would be the one in which society exists without government, without police, and without law, the collective activity exercising itself by a kind of immanent reflection; the exploitation of the earth would take place unitedly and in perfect harmony, and the individual, following only his own inclination, would attain the maximum of wealth, of science and of virtue.

Certain Socialists—and I must place in the first rank those of the phalansterian school—conceive nothing of this achievement of happiness and of liberty by this negation. The sublimity of the Fourierists' theories has made the elements of common sense unintelligible to them.

Those who for ten years have lived only on subventions, as did the Republic under the Provisional Government; those who have devoured millions only to show their incapacity; those who stand mute when their country asks of its children counsel and assistance, dare to vilify as powerless, as negative the economic means indicated by the universal need, by the spirit of the century and the progress of the age.

Further on we will show the Fourierists what is positive in a negation, what clothes emptiness with reality.

We will begin with the balance sheet of the Bank of Exchange.

Every one knows that if three or more traders, living in

different places, had simultaneous knowledge of the need that each one has for the products of the other, they could contrive the manner of exchanging their products and services directly, without the intervention of money.

This is self-evident and incontestable in theory, since exchange among three or more is the same thing as exchange between two; it is practiced every day in the clearing of accounts. On this point, then, there is not the least difficulty.

By this principle, which suppresses specie, the idea of the Bank of Exchange is easy to understand.

The Bank of Exchange offers its services because the Bank knows individually all the producers and consumers of the country, the state of their affairs, their capability, their solvency, the importance of their operations and, what is most important, their needs from day to day.

It is by aid of this knowledge that it possesses of production and of sales that the Bank of Exchange offers to put all producers and consumers at all times in communication with each other, without charge, so that no political upheaval can ever interrupt their relations, in the interchange of their products.

Such is the organization of the Bank of Exchange—operative everywhere, informed about everything, it says to every trader: give me your invoices, your bills of exchange, your orders, consign your merchandise to me, and, by my innumerable connections, I will conduct your transactions, without the aid of cash and consequently without discount, *without interest!*

Here, then, is the Bank of money converted into a Bank of Exchange, indirect exchange replaced by direct exchange, the role of metal suppressed and replaced by a method of clearing, the negation converted into an affirmation.

And now! What advantage can we derive from this reform? What would this do for labor? What can the State, the people, society, liberty or morals gain when there are no more capitalists?

Let our adversaries follow our estimates closely.

First: *Circulation*—According to the best authorities, the total circulation in France—that is to say, the amount of its commercial bills presented for discount, at the Bank of France, at those of the provinces, in private banks—is about 20 billions. For this circulation, which means that for the exchange of their products, the producers pay to the capitalists in interest, commissions, costs of protests, losses, unpaid drafts, etc., etc., an average of 8 per cent, which totals 400 millions.

A deduction of 400 millions from the profit of the capitalists—this is the negative side of the idea.

An economy of 400 millions as the profit of the consumers—this is the positive side of the idea.

There is in all this only one amount, that of 400 millions, to be transferred from the debit of the association to its credit. And here is my answer to the good people who have asked me whom I would put in the place of the capitalists, who take from you these 400 millions: Yourself, citizens, for whom I would save 400 millions.

Second: *Loans on mortgages*—The amount of the debts contracted on mortgage by the agricultural, manufacturing and other producers is variously estimated at from 12 to 14 billions. The rural debt forms the greater part of this enormous burden. The debtors are generally peasants. The average rate of annual interest and costs for these kinds of loans is 10 per cent. Here is the statement:

1. Costs of the instrument	3	per cent
2. Commission to the intermediary	$\frac{1}{4}$	per cent
3. Annual interest	5	per cent
4. Contingent costs on sales, taxes, etc., etc., of $\frac{1}{4}$ to 6 per cent, say an average of	2	per cent
	<hr/>	
	10 $\frac{1}{4}$	per cent

The debtor borrows for three or four years at most, but the time stipulated is illusory, because the contract always

provides that the advantage of the terms is forfeited when the interest is 30 days in arrears, and suit must be brought. And the peasant never pays at maturity!

The average rate of interest and costs for mortgage loans being 10 per cent, and the loans totaling 12 billions, here is a new tribute of 1200 millions which the country pays to the monetary parasite.

But why this tribute?

Because the peasant needs, in his operations, a quantity of products and services which he cannot obtain in exchange for his existing or expected products and which he is compelled to buy and pay for in money. The peasant builds, increases his stock, buys horses, cattle, pays interest, buys cotton, linen, etc., especially since the division of labor and the separation of industries have spread from the towns to the country. For all these things money is required. Products in themselves are of no use, as they cannot circulate except by the use of money.

With the Bank of Exchange, on the contrary, the peasant borrows at the same rate that the merchant discounts—that is to say, gratis. With an annual installment of less than one-half of the interest and charges that he pays to the capitalist, the notary, etc., the peasant will obtain from the Bank of Exchange the same credit, and in 21 years he will have the whole loan paid off.

Thus the mortgage credits, organized on the principle of the Bank of Exchange, would produce for the country a second economy of 1200 millions. This is another negative changed into an affirmative: 1200 millions that stays in our pockets, instead of going into those of the capitalists.

Third: *Pawnshops*—Here is another suppression capable of making the hearts of all the philanthropists bleed. The proceeds of loans made on pledges in the pawnshops were, in 1847, for all France, 42 millions. I suppress the pawnshops and restore to the workers who are paying them, 42 millions.

But, says the worker, impressed by the phalansterian argument, when I am on strike and have no money, I pawn my

watch; the pawnbroker lends me 10 francs and gives me a receipt with the right to redeem. If, when due, I am without funds, he extends the loan. You must admit this is an accommodation. What would you put in the place of the pawnshops?

Fellow citizens, I would put nothing at all. Far from it. I mean to change something else in your habits, and that is idleness. As two negatives make an affirmative, the result for you will be the abolition of the pawnshop and the end of idleness, as you would always have work and would never be in debt. Does that please you?

Fourth: *Public Debt*—It often happens that the taxes do not suffice and the State then finds itself in the same situation as the peasant who wants to build, increase his stock, repair the damages of the preceding year; it needs loans; and it borrows, and what does it borrow? It borrows money.

The State borrows money to pay its contractors, purveyors, engineers, laborers, soldiers; to buy horses, wagons, harness, lead, iron, copper, wood, hemp, linen, cloth, fodder, etc. etc., all things furnished by its citizens.

Why, then, does the State instead of applying directly to its citizens, apply to the men of money?

Because it has no other means of effecting transactions between itself and the producers. With the Bank of Exchange, on the contrary, the State obtains directly from each citizen, who has become a creditor of the State, the latter repaying annually in installments and without interest, all the advances it wants. The State by this operation not only does not contract any new debts, but pays its old ones. According to the last budget presented by the Government of Louis Philippe the interest on the public debt is about 330 millions. This makes 330 millions less to be paid by the citizens. It is true that, with these 330 millions and the 1,200 millions paid for the loans on mortgages, there will disappear also the deposit bank, the interest on the public debt, and quite a number of bankers, notaries, stock brokers,

etc. What will become of us, when there are no more mortgages, no more stock jobbing, no more interest?

Fifth: *Customs*—In the destructive anti-monarchical and anti-financial proposals published under the title "Organization of Credit and of Circulation," which preliminary articles have appeared under the name of *By-Laws of the Bank of Exchange*, we said that, the principle, *Products exchange for products*, becoming, by the use of bills of exchange, a reality, for the people as well as for the individual, imports and exports would always balance; that the correct way of protecting national industry consists in demonetizing gold and silver, and that thus the tariff would become, in fact as well as in law, unnecessary. If we add that the economies realized on all products by the establishment of the Bank of Exchange carry with them a considerable reduction in the net manufacturing cost of all products, we shall be immediately in a position to be able to meet foreign competition without risk to our own capital, and with immense benefit to our commerce. The reason for this is easy to grasp. If gold and silver have none but a commodity value as products whose price is governed by the costs of extraction and by the labor incorporated in them; if, consequently, money were daily sinking in value compared with bills of exchange, it is evident that, on one hand, we would have nothing to fear from the exportation of the precious metals, and that, on the other, the foreigner would have all the advantage of paying for our products with our own bank bills, instead of paying us in money. As these bills only represent products, foreign commerce will find itself freed, even as internal commerce is freed, from the domination of specie; exchanges will be effected directly between our products and those of the foreigner, and between our labor and that of other peoples.

*To Labor Is to Produce Something Out of Nothing*

Man, by this proposition, becomes equal to God. Like God, he creates things out of nothing. Thrown naked upon

the earth, among briars and thorns, among tigers and serpents, finding hardly enough sustenance for one person on each square league; without tools, without patterns, without supplies, without previous experience, he has had to clear, lay out, eradicate, cultivate his domain; he has embellished nature itself; he is surrounded by the unknown marvels of the ancient author of things, and has given birth to luxury where nature had given nothing but profusion. At the origin of society, there was only raw material, there was no capital. It is labor that has created capital; it is the laborer who is the real capitalist. Because to work means to produce something out of nothing, to consume without producing is not to exploit capital, it is to destroy capital.

Such, then, is the first principle of the new economy, a principle full of hope and of consolation for the laborer without capital, but a principle full of terror for the parasite and for the tools of parasitism, who see reduced to naught their celebrated formula: *Capital, labor, talent!*

Producing something out of nothing is the first term of a marvelous equation, which in these fundamental propositions we shall see unfold and yield, as a result and conclusion—wealth.

### *To Give Credit Is to Exchange*

This axiom is, like the first, the overturning and the overthrowing of all economic and phalansterian ideas.

In the system of interest-bearing property, where capital, by a purely grammatical fiction, passes from the hands of the worker to those of a parasite who is for that reason called a capitalist, credit is *unilateral*, proceeding from the parasite, who possesses without producing, to the worker, who produces without possessing. Thus established, credit demands a tribute from the debtor, in exchange for the permission—which the parasite grants him—to make use of his own capital.

In the system of the Bank of Exchange, on the contrary, credit is *bilateral*: it flows from each worker and is directed



to all the others in such a manner that, instead of borrowing capital bearing interest, the workers mutually pledge each other their respective products, on the sole condition of equality in exchange.

Thus, in this system of credit, every creditor or mortgagee becomes a debtor in his turn; one thing is exchanged for another. In the other system, there is only one creditor and one debtor, and something is given in exchange for nothing. The one of the two contracting parties who gives without receiving is the worker, the one who receives without giving is the capitalist.

### *To Exchange Is to Capitalize*

In the old political economy, this has no meaning. In the mutualist system, nothing is more rational.

In fact, if, as we have just shown, giving credit is the same thing as exchanging; if nothing should be given for nothing; if products can be delivered only for equivalent products, and not for an authorization to produce: the moment that direct exchange no longer encounters any obstacles, it is evident that the means for each individual laborer to obtain wealth is for him to acquire the greatest possible amount of different products, in exchange for his one unvarying product.

The contrary happens when exchanges can be made only by the intervention of money, and subject to the discount profit of the holder of coin, like the profit accruing to the holder of the tools of production. In this instance, it is clear that exchanges are infrequent and costly, because they are hampered. Conversion of the product is difficult, sales always restricted, demand always timid; capitalization takes place only in the form of money, consequently instead of having consumption active it has frugality for its only principle, and, like frugality, it is poor and indigent.

Whether one views it from one or the other standpoint, the savings bank is a philanthropic institution, or an economic absurdity.

*A Consumer Is a Partner*

This axiom is a consequence of the third paragraph—*To exchange is to capitalize*, as the latter is the consequence of the second, *Credit is exchange*. In reality, where, by the direct exchange of products, all producers are considered as creditors, the consumer becomes the sleeping partner of those who, not having any products to offer for exchange, ask either for work or for instruments of labor. "What can you offer us?" one says to the idle worker. "Some cloth, shawls, jewelry, etc.," he answers. "Very well; here are our orders: Take them to the Bank, and, on the guaranty of our signatures, you will get an advance, you will receive the means to work, to live, to cover your credit; in short, that which will enrich you."

Such is the very nature of credit.

Between the producer and the consumer, the current view places the capitalist; between product and product, it puts money; between the worker and the employer, that is to say, between labor and talent, it puts capital, property. What a splendid trinity! What a perfect triad! And how much does this synthesis of the three degrees outweigh the dualism of reciprocity!

If now from the principles of mutualism we pass to its forms, we find everything appropriate, that is to say, everything is contrary to the notions of the old jurisprudence as well as to the old political economy. Following the code and all the commentators, all civil or commercial societies, formed for any exploitation whatever, imply:

1. Contribution of capital.
2. Production in common for a definite object.
3. Limitation of the number of its members.
4. Limitation of the period of its existence.
5. Joint liability of its members.
6. Distribution of its profits.

It never occurred to anyone that a company can dispense with capital; that it may not have for its purpose the realiza-

tion of profits, that the members need not be jointly liable; that their company does not engage in any special production; that it is not limited in the time of its existence or in the number of its members. All the transactions of the company have no other purpose than to provide for the conditions and accidents which can give rise to any one of these conditions.

The mutualist association, for which the by-laws of the Bank offer a type, reverses all this.

It has no capital;

Its object is not production, but exchange;

It is unlimited, not in goods and profits, but in the number of its members;

It is perpetual;

It binds its members in no way to each other;

It makes no profits.

The mutualist association has no capital, because to work is to produce something out of nothing, and any consumer, by virtue of his custom, becomes a partner.

Instead of production in common, the only aim of this association is the mutuality of services. Indeed, as all production results from a combination of separate functions, it involves, on the part of the co-producers, nothing more than the mutuality of labor.

It is universal in its tendency; all industries can be considered as dismembered from one another, and the same mutuality which exists between the co-producers of any one article exists among all industrial operations.

It is as perpetual as humanity itself, of which it is the image and the organ.

It does not involve its members in any joint liability. Against accidents, arising from the forces of nature, it is protected by a system of general insurance analogous to that of the Bank of Exchange; against the errors of individuals, it is protected by the limitation of their powers and by mutuality itself.

It makes no profits; and why? For the same reason that

it has no capital, because *labor produces everything out of nothing*.

The mutualist association is like nature, which is wealthy, beautiful and luxuriant, because she draws her wealth and her beauty from the creative force that is within her; in a word, because she produces everything from nothing. Nature in producing does not profit thereby.

On whom, on what would nature profit? On herself? To profit, for nature, would be to rest, to cease producing; profiting would be the same thing as impoverishing.

Likewise, in the association, profit is synonymous with poverty, since to profit can signify nothing for her, but to take from herself, as in trade profit is synonymous with taking from others. Profit is therefore here synonymous with theft, and what is true of society is true of the individual, who is always less wealthy and less happy in proportion to the poverty of his fellows.

Thus, production without capital, exchange without profit—these are the two terms between which social economy oscillates and whose result is wealth.

The two negations balance each other. The first shows the debit of the laborer, the second his credit. This is the principle of mutualist accounting.

How does the Bank of Exchange begin its bookkeeping? It is not with an account of *capital*, since it has no capital; nor with an account of stock, since it possesses nothing as yet, not even bills; nor with cash, since it has nothing in its till; nor with *general merchandise*, or *profits and loss*, since it has produced nothing, and before any operations it cannot lose or gain.

The Bank opens accounts by the process of drafts and remittances; that is to say, as soon as it begins to function, as soon as it operates, as soon as it has availed itself through the universal partnership of the special work done by circulation, receiving from some and supplying to others, the Bank retains from each transaction the price of its service, its own *wage*, *capital* and *profit*, three terms from now on

synonymous. The greater number of transactions it performs, the greater number of emoluments it realizes, or, in other words, profits; and since working much is synonymous with working as cheaply as possible, the greater the reduction the Bank of Exchange makes in its discount, the more other associations, who in their own lines follow the same movement of reduction, will thrive.

Thus, by the sole fact of the inauguration of the mutualist principle and the abolition of specie, the relations of labor and capital are inverted; the principles of commerce are overthrown; the forms of society, both civil and commercial, are reversed; the rights and the duties of the members are changed, property revolutionized, accounting reformed; equity, hitherto hobbled, is reconstituted on a stable basis.

These principles once established, and we do not fear that they can be proven false, we come to the project of the mortgage bank—on which the National Assembly will, of course, endlessly debate.

Agricultural production pays its creditors 10 per cent interest. This is correctly determined to be too dear, and it should be reduced to at least one-half. To do that, people imagine nothing better than to found an agricultural bank or a Mortgage Bank, and to make the State the head and manager thereof.

But, first, how would such a Bank have to function?

It is not with specie. The amount of mortgage loans are today 14 billions; at 10 per cent this means 1400 millions that the capitalists levy on agricultural production. Now, not only does agriculture complain that money is too dear, but it also complains that there is not enough of it. If, then, the State could lend money at 5 per cent, all costs included, instead of 10 per cent, undoubtedly the totality of sums loaned would soon mount to 20 and perhaps to 30 billion, debts always increasing with the facility of contracting them. But such a bank is impossible. There are not 20 billions of specie in all Europe, and when it came to gathering them, these 20 billions would soon represent a

value of only 3 or 4 billions; as money, like all merchandise, diminishes in value as it increases in quantity.

It is seen at once, by this simple observation, that mortgage credit, as understood in the ordinary conditions of credit, turns in a vicious circle; it is an idea that implies a contradiction by its very terms. Since, therefore, enough specie could neither be found to finance so vast an industry as agriculture, nor, even though the desired quantity existed, to preserve its exchange value, what means can be conceived?

It is to convert property itself into money; to free it, to mobilize it, to make it circulable like money. Shorn of technical verbiage, here is what the operation consists in: The borrower presents himself at the Bank with the titles to his property. A transcription of his title is made in a register with coupons of various denominations and according to his wishes there are detached from the register one or more coupons whose sum total equals either two-thirds or three-fourths of the value of the property, as may be determined.

And this coupon, this receipt or mortgage note, as it would be called, becomes a bank note; it is money. By virtue of the law, the person to whom it is issued and after him all the holders of the coupons have the right to have it accepted everywhere at its face value, in payment for all kinds of merchandise or services, and in settlement of all accounts, etc.

The loan, and in consequence the circulatory capacity of the note, is limited to a certain number of years, at the end of which period the borrower must repay to the bank the amount expressed in the note, in default of which the last holder has the right to require the sale of property.

In return for this service of coining money from property, the borrower pays to the State, during the time of the loan, and notwithstanding that the reimbursement terminates it, an interest of 3, 4 or 5 per cent. In the other systems, interest, instead of being paid to the State, belongs to the holders who collect it at the maturity fixed by the bank.

Be that as it may, in what manner it bears interest, or whether it goes into the coffers of the State or accumulates in the hands of the monopolizers of notes, is of little consequence; mortgage credits, established on this basis of the mobilization of property, are a heavy load for the worker, a deception for the borrower, a calamity for all.

The creditor, the man who gives credit, is you yourself, it is I, it is all the workers that the State, without warning, obliges to make advances of their day's work, of their products, of their services, to a proprietor who will never pay them either the principal or the interest. The State possesses nothing, it has nothing but debts and bayonets. To discharge its debts, it becomes a banker, but a banker without capital. Its bills of credit are the notes that it draws at sight on all of us, as though it said to us, "I, the State, promise to pay to Jacques Fornachon, citizen at Palante, the sum of one thousand francs, the amount of which you will please pay to him at sight, in such merchandise, services or labor as he may require, in default of which I will compel you."

Such is the credit of the State.

Let this, then, be thoroughly understood. When the State becomes a banker, when it decides to give credit, it does nothing but seize, by the force of arms, the bread of the workers, the goods of the merchants, the products of the farmers, the commodities of the manufacturers, and to give them to the borrowers, who must first pay it interest, and then the principal. What do you think, citizen reader, of this system of banking?

There is reason to believe that the debtors will be eager to free themselves and to run to the Bank of the State, but with the ease of borrowing that this new system holds out, together with the immense needs of agriculture, it is no exaggeration to say that, with borrowing made at half price and for twice as long, borrowing will be multiplied. The mortgage charge will not be diminished, and, the same causes still operating in the same manner, they will increase. They

will increase also for another reason. Really, up to the present, we have reasoned on the supposition that the bills will be accepted at par everywhere. But it cannot be so; metallic money will always have, no matter what happens, a marked preference. It will, therefore, have discount and depreciation; consequently the interest that we suppose ought, for instance, to be 5, will be 6, 7 or 8; therefore, deception for the borrower, who, thinking he borrows at 5, really borrows at 6 and higher.

Thus there will be pulling and hauling between the borrowers, interested in making the credit paper circulate, and the producers, interested in refusing it or in accepting it only at a discount; thence chaos, gambling, disintegration of medium sized and small properties, progressive increase in the costs of production, and, at the end of the account, universal bankruptcy.

The Bank of Exchange proceeds quite otherwise.

First of all, the Bank of Exchange does not function through the State, which possesses nothing, which cannot create credit out of anything, which exists but to devour, and which it is the aim of the Revolution to abolish. The Bank of Exchange represents the totality of the producers. It is through them that it exists and for them that it labors.

The Bank of Exchange loans on mortgages, *without interest*, accepting repayments in annual installments. This signifies that through the Bank of Exchange the whole of the producers voluntarily loan to the farmer, on a mortgage of his property, the amount he needs for supplies and help and other purposes in carrying on his affairs.

In exchange for this credit, the borrower each year repays the Bank—which means all the producer-lenders—the installment promised, so that the repayment to the creditor is as real as the credit. No longer will there be any parasitic middleman, usurping, like the State, the rights of the laborer, and absorbing, like the capitalist, a part of his product.

The State, as well as specie, being excluded from this



régime, credit reduces itself to a simple exchange in which one of the parties delivers his product at one time, the other remits his in various installments, all without interest, without any other costs than those of accounting.

In this system, let the operations multiply themselves as much as they will, for, far from showing an increase of charges for the producer, like those which take place in the mortgage bank, this acceleration of business will be a sign of an increase of wealth, since credit is here nothing but exchange, and since products call for products.

The effect of the Bank of Exchange, where capital has need for no reserve, will be diametrically opposite to that of the mortgage bank, where the State, acting as a capitalist, exacts usury from the borrowers. Through the Bank of Exchange credit spreads activity and wealth everywhere; through the mortgage bank, it digs an abyss where both the producers and the State are fatally engulfed.

A crown has no sooner been snatched from the hand of the laborer, than it is placed at compound interest against the people. On this interest live and thrive all the swarm of parasites that suck the sap of humanity. From time to time the exhausted tree turns yellow, becomes scrawny, and stops bearing its fruit; then the parasites perish in myriads and soon the giant Nature reconstructs more vigorously and more magnificently. The people are never more fecund or more strong than on the morrow of a general bankruptcy.

## V

### THE BANK OF THE PEOPLE \*

#### *Declaration*

I swear before God and man, upon the Gospel and on the Constitution, that I have never held nor professed any

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\* In the section on the *Bank of Exchange* Proudhon had laid out the theoretical basis for the mutualization of credit. Here he lucidly and practically presented the organization itself. (Editor.)

other principles of reform than those laid down in the present treatise, and that I ask nothing more, nothing less, than the free and peaceful application of these principles, and their logical, legal and legitimate consequences.

I declare that in my innermost thought, these principles and the results which flow from them, are the whole of Socialism, and that beyond is nothing but utopia and chimeras.

I vow that in these principles, and in all the doctrine to which they serve as a basis, nothing—absolutely nothing—can be found opposed to the family, to liberty, or to public order.

The People's Bank is but the financial formula, the translation into economic language, of the principle of modern democracy, the sovereignty of the People, and of the Republican motto, *Liberty, Equality, Fraternity*.

I protest that in criticizing property, or rather the whole mass of institutions of which property is the pivot, I have never intended either to attack individual rights, based upon existing laws, or to contest the legitimacy of acquired possessions, or to demand an arbitrary division of goods, or to place any obstacle to the free and regular acquisition, by sale and exchange, of property, or even to forbid or suppress, by sovereign decree, ground rent and interest on capital.

I think that all these manifestations of human activity should remain free and voluntary for all: I ask for them no modifications, restrictions or suppressions, other than those which result naturally and of necessity from the universalization of the principle of reciprocity which I propose.

What I say of property, I say of every political and religious institution as well. My sole aim, in passing through the crucible of criticism the different parts of the social structure, has been to discover, by a long and laborious analysis, yet higher principles, whereof the algebraic formula is announced in this treatise.

This is my testament in life and in death: he only may doubt its sincerity who can lie when on his death-bed.

If I am mistaken, the good sense of the public will soon dispose of my theories: there will be nothing left for me but to disappear from the revolutionary arena, after having asked pardon from society and from my brothers for the annoyance which I may have caused to their minds, of which I am, after all, the first victim.

But if, after being discredited by general good sense and experience, I should seek again some day to excite the feelings and arouse false hopes by other means or by new suggestions, I would invoke upon myself thenceforth the scorn of honest people and the maledictions of the human race.

P. J. PROUDHON.

### *Formation of the Company*

In the presence of *Dessaignes* and his colleague, notaries at Paris, undersigned, appeared Citizen Pierre-Joseph Proudhon, representing the people, residing in Paris, 70 Mazarin Street, and requested the undersigned notaries to confirm the articles of incorporation of the present Company as follows:

*Article 1.*—By these presents is founded a commercial company, under the name of the *People's Bank Company*, between Citizen *Proudhon*, proponent, and such person or persons as shall accept these articles of incorporation by purchasing shares of stock therein.

*Article 2.*—The object of this Company is to organize credit democratically:

(1) By procuring for everyone the use of the land, of buildings, machines, instruments of labor, capital, products and services of every kind, at the lowest price, and under the best possible conditions;

(2) By facilitating for all the disposal of their products and the employment of their labor, under the most advantageous conditions.

*Article 3.*—The intention of the founders of the *People's Bank* is to have it incorporated eventually under the form of a joint stock company, and to accept all the principles of such a company, as defined by the existing commercial law,

that is to say, that it shall be administered by officers, temporary and revocable, members or non-members, salaried or without salary, exempt from individual and joint obligation, and responsible only for the duties of their office. But for the present the Company will be a company with a collective name, and also a partnership;\* it will be in a collective name in relation to Citizen Proudhon, and a partnership in relation to others interested, who in no case shall be liable beyond the amount of their stock.

*Article 4.*—Citizen Proudhon shall be the sole responsible manager. He alone shall have the right of signature for the Company; and the general administration of the Company shall belong to him, under the title of General Manager. But he shall have the right to take as co-adjutors, two or four deputies, under the title of Assistant Managers, for whom he shall be responsible, and to whom he may delegate the right to sign for the Company.

*Article 5.*—The name of the Company will be *People's Bank*. The official designation will be P. J. Proudhon and Co.

*Article 6.*—Independently of the members of the Company properly so called, every citizen is invited to join the People's Bank, under the designation of cooperator. For this it is sufficient that they should support its by-laws and accept its paper.

The form of supporting is determined by a special rule of the Bank.

The position of shareholder carries with it all the obligations of supporter, unless reservation is made in this regard by the shareholder.

*Article 7.*—The People's Bank being susceptible of indefinite extension, its existence is virtually perpetual. Nevertheless, in order to conform to the requirements of the law,

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\* *Commandite*. A *commandite* is a partnership in which the active partners' liability is unlimited, while that of the sleeping partners is limited by the amount of their capital. Tr.

its life is placed at ninety-nine years, to begin upon the date of its definite incorporation, as hereafter stated.

*Article 8.*—The home of the Company and its legal domicile are at Paris, for the present, where its offices are at No. 25, Rue du Faubourg-Sainte-Antoine.

### *Capital of the Company*

*Article 9.*—The Company holds the following principles: That all raw materials are furnished to man by nature gratuitously.

That therefore, in the economic order, all products come from *labor*, and reciprocally, that all *capital* is unproductive.

That as every transaction of credit may be regarded as an exchange, the provision of capital and the discount of notes cannot and should not give rise to any interest.

In consequence, the People's Bank could and should operate without capital; as it has for its *base* the essential gratuity of credit and of exchange; for its *object*, the circulation of values, not their production; for its *methods*, the reciprocal agreement of producers and consumers.

This end will be attained when the entire body of producers and consumers shall have become supporters of the by-laws of the Company.

Until that time, the People's Bank will have a capital, in order to conform to established custom and the requirements of the law, but chiefly that it may more successfully solicit the support of citizens.

*Article 10.*—The capital of the People's Bank will be five million francs, divided into one million shares of stock of five francs each.

These will be taken from a registry book with stubs, which will be kept at the office of the Company. They will be signed by the General Manager, or, with his authorization, by one of the Assistant Managers, and sealed with the seal of the Company.

Payment for stock may be made in several partial pay-

ments, according to the decision of the General Manager, who should always take the advice and receive the preliminary assent of the Supervisory Committee in this matter. Nevertheless, at least one-tenth should be paid at the time of subscription.

The Company will be definitely incorporated, and will begin operation when ten thousand shares shall have been subscribed for.

This incorporation will be declared by the Manager, in a document attached to these presents.

*Article 11.*—All shares will be registered, and transfer will be valid only when recorded on the books in the office of the Company.

*Article 12.*—All shares shall be issued *à* par. They bear no interest.

*Article 13.*—Partial reimbursement may be made to shareholders upon the total amount of their stock. They may even be completely paid off, if the Company can be carried on with the assets of the firm, independently of the Corporate capital.

In this case, the holders of shares preserve their rights as beneficiary associates, and all the prerogatives of which the Company assures them.

*Article 14.*—The capital may also be increased upon the representation of the General Manager, and the vote of the General Assembly. This increase shall be obtained by a new issue of stock, wherein former stockholders shall have the preference.

### *Transactions of the People's Bank*

*Article 15.*—The principal transactions of the Bank are:

- (1) The increase of its cash on hand by the issue of notes;
- (2) The discount of commercial two-name paper;
- (3) The discount of orders and acceptances;
- (4) Advances on consignments;
- (5) Open accounts on security;
- (6) Advances on annuities and mortgages;

(7) Payments and collections;

(8) Transmission of orders;

To the above functions the People's Bank will add:

(9) Bank for savings, mutual aid and resort;

(10) Insurance;

(11) Consignments and goods deposited;

(12) Administration of the budget.

### *Notes of the People's Bank*

*Article 16.*—The paper of the People's Bank will bear the name of circulating notes.

*Article 17.*—They will be of the denominations of five, ten, twenty, fifty and one hundred francs, with such modifications in these figures as the management may deem advisable, whether to diminish them or to augment them, after having consulted with the Supervisory Council.

*Article 18.*—Unlike ordinary bank notes, which are orders payable *in specie*, the notes of the People's Bank are orders for delivery, invested with social character, made perpetual and payable at sight by every member or supporter in the products or services of his industry or profession.

*Article 19.*—The notes of the People's Bank will have for security:

(1) Commercial obligations and titles to property presented for credit and for discount, as will be hereafter explained;

(2) Cash coming from the sale of shares forming provisionally the capital of the Bank;

(3) Cash coming from the sale of notes for coin;

(4) Cash and notes coming from loans, deposits, consignments, premiums on insurance, and other dealings with the public;

(5) The mutual promise of acceptance by all members and supporters;

*Article 20.*—The circulating notes are accepted for all payments by all members of the company, both stockholders and supporters.

The Bank is not liable for their redemption in specie; such redemption is wholly voluntary; but it does guarantee their acceptance by its supporters. A full list of their names, occupations and residences will be posted in the office of the Company.

*Article 21.*—Every supporter engages to make his purchases, of all articles which the Company can supply, from the supporters of the Bank, and to keep his orders for his fellow members or fellow supporters exclusively.

Reciprocally, each producer or merchant who is a supporter of the Bank, promises to sell at a reduced price to fellow members or fellow supporters the products of his trade or objects of his commerce.

*Article 22.*—The payment for all sales and purchases among the different members and supporters of the Bank, being the reciprocal exchange of their products and services, will be effected by means of the Bank's paper, that is, of the circulating notes.

### *Issue of Notes*

*Article 23.*—Circulating notes will be delivered by the Bank:

- (1) For specie;
- (2) For commercial paper with two names;
- (3) Upon consignments of merchandise;
- (4) Upon the collective obligations of corporations or laborers' associations;
- (5) Upon security;
- (6) Upon annuities and mortgages;
- (7) Upon personal guarantee.

For the People's Bank all these transactions are only varieties of exchange, otherwise called discount.

### *Discount of Cash*

*Article 24.*—All purchasers, members or non-members who wish to enjoy the low prices guaranteed by producers who



are supporters of the People's Bank, will turn in at the counter of the Bank the cash intended for their purchases; and will receive in return an equal sum in circulating notes.

*Article 25.*—Workmen and salaried workers who wish to aid in the work of emancipation pursued by the People's Bank, may turn in every week a part or all of their pay at their convenience. They will receive an equal amount of circulation notes.

*Article 26.*—Merchants, manufacturers and producers of every sort, who wish to secure the custom of the holders of circulating notes, and to profit by this new mode of transferring products, will become supporters of the Bank, and thereby engage to accept the notes of the People's Bank for all payments.

*Article 27.*—To facilitate the use of the circulating notes, provision will be made for opening bakeries, groceries and other branches of industry of prime necessity, intended to serve the needs of those interested, and as a channel for circulating notes, either by the founders themselves, or by collateral institutions with which they may come to an understanding, or to which the Bank may give credit, as described hereafter.

*Article 28.*—These establishments will be and should remain independent of the Bank and of each other. They will be maintained and carried on at the risk and upon the sole responsibility of those who undertake them, without any privilege for any of them.

The People's Bank, while favoring workingmen's associations, maintains the freedom of commerce and emulative competition as the principle of all progress and the guaranty of good quality and low price of products.

*Article 29.*—To the end explained above, in article 27, provisional agreements may also be made with all tradesmen and dealers according to need.

*Article 30.*—The sums paid in, in exchange for the notes of the Bank, do not bear interest.

*Discount of Commercial Paper*

*Article 31.*—The greatest prudence should rule over the first transactions of the People's Bank; circulating notes will be delivered in the beginning exclusively:

(1) In exchange for specie, in the manner and upon the conditions stated in the preceding chapter;

(2) Upon good commercial paper to the extent of the means furnished by the paid up capital of the Bank.

*Article 32.*—In proportion to the paying in of capital for shares issued, to the increase of cash in hand by the discount of specie, as well as by loans, deposits and consignments, and in proportion to the increase in the number of subscribers both in Paris and in the provinces, the discount of commercial paper, bonds, drafts, invoices, orders, promissory notes, and other securities, will be done to a greater and greater extent, with the usual precautions observed by bankers, and with those fixed by the administration of the Bank.

*Article 33.*—The People's Bank discounts commercial paper with two names.

*Article 34.*—In accordance with the principle and aim of its institution, which is the absolute gratuity of credit, the People's Bank can and will carry on discount and give credit at a continually decreasing rate of interest; replacing, in a continually increasing proportion, the security of specie by the security which results from the reciprocal, pre-arranged acceptance of its notes by all its subscribers.

*Article 35.*—This interest, commission included, is fixed provisionally at 2 per cent per annum. It will be reduced little by little, in proportion to the progress of the Company.

In any case, the rate of discount cannot fall below  $\frac{1}{4}$  of one per cent.

*Article 36.*—To be received for discount, notes or obligations with two names should specify the nature, quantity, and quality of the merchandise upon which they are based.

All fraud or misrepresentation as to this will be prosecuted at law.

The Bank will receive for discount, precisely for this reason, orders and bills that have been accepted.

### *Advances on Merchandise*

*Article 37.*—Discount on consignments is a method of relieving the blocking-up of warehouses, and giving aid to commerce and industry, overflowing with products without an outlet.

*Article 38.*—The People's Bank makes no advances on pledges. It is neither a certified loan office nor a pawn shop. The circulating notes cannot in any case be compared to warehouse receipts.

*Article 39.*—The Bank will buy the products of customers on account, at full value, half, two-thirds, three-quarters or four-fifths of the selling price, according to the circumstances, and the nature of the merchandise; and will cause them to be deposited either in a public emporium or in a warehouse.

*Article 40.*—Up to the expiration of the time fixed by the contract of sale, the consignor is at liberty to repurchase the merchandise, reimbursing the Bank only the amount advanced by it.

Upon the expiration of this time, the Bank will sell the deposited merchandise at public auction. The excess of the price obtained at the sale above that fixed at delivery belongs rightfully to the consignor of the merchandise.

*Article 41.*—The State, upon its bonds; manufacturers, upon their products; merchants, on their merchandise; proprietors, farmers and laborers, upon their crops; security holders—in a word, all citizens—can profit by the institution to obtain advances.

### *Advances on Security*

*Article 42.*—The People's Bank discounts future products, that is to say, it carries open accounts with its supporters, either with security, or on titles to property, or personal guaranties of manufacture.

*Article 43.*—In the first case, the guaranty required consists of the presentation of two or more bondsmen, as the Bank may judge prudent and proper.

*Article 44.*—The bondsmen will be jointly and severally liable; each will answer for all.

*Article 45.*—In case of non-payment by the supporter, the Bank will look to the bondsmen, in a friendly manner, for reimbursement.

### *Advances on Mortgages*

*Article 46.*—Although the People's Bank does not loan on real estate, no more than it loans on chattels, it may make loans by means of furnishing credit to owners, whether merchants or not, on mortgage securities having a long term to run and upon annuities.

*Article 47.*—If at the expiration of the term, the proprietor has not reimbursed the amount lent to him, or if for two consecutive years he has been unable to pay the agreed annual payment, the Bank will proceed to foreclose.

*Article 48.*—In case the Bank buys in the property, it holds, as a matter of principle, that the former owner shall have the preference, above all others, for occupancy and use as farmer or manager, upon conditions laid down by the Bank.

### *Credit on Accounts Current, Payments and Collections*

*Article 49.*—The Bank makes payments and collections upon Paris, the provinces and abroad.

### *Functions*

*Article 50.*—To transactions of *mercantile* credit, the Bank adds transactions of *personal* credit.

It provokes, arouses, encourages, protects and supports with its influence, with its official information and with its advances, every agricultural, industrial, scientific or other enterprise, and every attempt at a workingmen's association, which

seems to it to offer sufficient promise of skill, integrity and success.

*Article 51.*—Advances thus made by the Bank are not made as a joint stock company, and cannot be at all likened to redemption of shares of stock; they are, like advances on consignments of merchandise, and like opening of accounts on real estate, simple discount transactions, and compose the proper function of the Bank.

*Article 52.*—For this purpose there is to be established at once in the office of the People's Bank, a special division under the name of General Syndicate of Production and Consumption.

It will be directed by Citizen André-Louis-Jules Lechevalier, Ex-Secretary of the West India Company. The powers of the Syndicate are for the present as follows:

(1) To receive the declarations of manufacturers and dealers who desire to place themselves in relations with the supporters of the People's Bank and to enjoy the custom of the Company, and who therefore wish to give information as to their names, occupations, addresses, their special products or services, the qualities and prices of their merchandise, and the amount of their remittances and deliveries;

(2) To receive the requests of consumers, and to make sure of the chances of success for new enterprises by exact investigation of the demand;

(3) To publish a bulletin of commerce, agriculture, and industry, containing, together with the Bank's reports and the market quotations, all announcements and notices, such as demands for and offers of labor, demands for and offers of merchandise, reductions of prices, information of manufacturers and dealers newly admitted into the Company; this bulletin to be inserted in the newspaper, *The People*, which is appointed by these presents the official organ of the People's Bank, in its relations with its shareholders, its supporters and the public;

(4) To solicit the support of producers whose products and services are needed by the Company, and, in case of their

refusal, to start, among the members, competing establishments in similar lines;

(5) To begin a record of general, comparative and detailed statistics of commerce, industry and agriculture; in a word, to obtain, by every possible means, the extension and strengthening of the Company.

*Article 53.*—Finally, the People's Bank, as the special organ of circulation and credit, the point of convergence of all the productive forces, as well as of all the demands of the market, the connecting link between producer and consumer, does not itself engage in any enterprise.

It mingles neither directly nor indirectly in any speculation, nor in any business of whatever nature, except that of discount.

It neither accepts nor incurs responsibility, except for its own proper operations.

Its business is for it only a form of exchange, a discount transaction, the same as its consignments of merchandise, opening of accounts and annuities.

*Article 54.*—Whenever it shall seem desirable that the functions just now assigned to the General Syndicate of Consumption and production should be exercised by one or several establishments, having a commercial standing of their own, the People's Bank reserves the right to discontinue the General Syndicate, and to open accounts with the special, independent establishments which will take its place.

#### *Time Deposits, Checking Accounts, Insurance*

*Article 55.*—The People's Bank receives as checking accounts or time deposits, the savings of workmen, the balances of landlords and proprietors, and generally all funds, securities or cash capital, belonging to individuals or to associations or corporations of all kinds.

*Article 56.*—Sums of money or securities deposited will be repaid to depositors without interest, upon presentation of certificates after a week's notice.

Sums of money and capital confided to the People's Bank

as deposits or loans, will be repaid to the owners upon conditions fixed by individual contracts between them and the bank.

*Article 57.*—Up to the day of repayment or reimbursement, sums, whether deposited or lent, remain at the disposition of the Bank, which has the right to use them as a pledge for its issues and discounts.

*Article 58.*—The People's Bank is not, and can never become, an insurance enterprise of any sort.

It receives, as time deposits or on checking account, the funds of mutual aid societies and of insurance companies.

It undertakes the payment of premiums and the bookkeeping.

It will pay pensions and indemnities of such companies that are due, upon the approval of the managers or secretaries of such companies, but only to the extent of cash deposited.

It will be, in a word, the bookkeeping agent and the cashier for societies that turn in their funds to it, but it will assume no responsibility for their losses or deficits.

*Article 59.*—In payment for its services, the People's Bank has the liberty to make use, in its transactions of credit and discount, of the sums turned over to it by societies and companies of insurance and mutual aid.

### *Profits*

*Article 60.*—Every six months a summary, or general inventory will be made of the transactions and of the condition of the People's Bank.

This inventory will be published in the Bulletin and in the journal of the Company.

*Article 61.*—The profit upon the transactions of the Bank, after deductions for the cost of administration and for interest on such funds as are subject to interest, will be added to the capital of the Bank, or reserved to take the place of it, in case of the redemption of its shares, until the

time when the Company, at a General Assembly, shall resolve to reduce the rate of discount to only the cost of service, and to carry on business in full accordance with its principles.

*Organization and Administration of the Bank*

*Article 62.*—The People's Bank has its principal establishment at Paris.

Its aim is to establish a branch in every province, and a correspondent in every town.

*Article 63.*—As soon as circumstances permit, the present Company will be changed into a joint-stock company, as this form will enable it to realize, in accordance with the desire of its founders, the triple principle, 1st, of election; 2nd, the division and independence of its functions; 3rd, the individual responsibility of each employee.

But inasmuch as at present the Company cannot be carried on except as a partnership, it will be represented, as above set forth, by the General Manager, with liberty to associate with himself two or four deputies, under the title of Assistant Managers.

*Article 64.*—The General Manager exercises, either in person or through his Assistant Managers, in virtue of the powers he may have granted them, all the rights and powers of the Company, including those of alienation, sale and hypothecation; but in such cases his action is not valid until the Supervising Committee, upon consultation, shall have expressed its consent.

*Article 65.*—The stipends of the General Manager and of his Assistant Managers will be fixed at the first meeting of the members of the Company.

*Article 66.*—The General Manager may be dismissed under the form provided hereafter in Article 81.

His dismissal involves by law the revocation of all powers that he may have granted to his Assistant Managers.

*Article 67.*—To aid the management in transactions of credit and discount, a Committee of Discount is hereby estab-



lished, appointed by the delegates of commerce and industry, members of the Bank.

*Article 68.*—The functions of this committee are:

(1) To examine the standing of notes presented for discount;

(2) To determine the value of property or merchandise on which the Bank is asked to make advances;

(3) To examine the security of each one who asks credit. No transaction of credit or discount can take place without the previous approval of the Committee on Discount.

*Article 69.*—The function of the Committee on Discount is merely consultive; the responsibility for all transactions made with its approval rests entirely upon the General Manager.

### *Supervising Council*

*Article 70.*—A council of thirty delegates will be created to supervise the administration, and to represent the sleeping partners in their relations to it.

They will be chosen by the General Assembly from among the shareholders or supporters in the various branches of production and of public service.

*Article 71.*—The Supervising Council will be renewed by thirds from year to year.

Departing members for the first two years will be selected by lot. A departing member may be re-elected.

In case of vacancy in the course of the year, the Council will fill it temporarily.

*Article 72.*—The Supervising Council will meet at least once a month, at such time and place as it may think fit. Its functions are:

(1) To see that the by-laws are observed;

(2) To have submitted to it, as often as it may think proper, but at least once every three months, a statement of accounts by the General Manager;

(3) To verify the accounts presented by him, and to make report thereon to the General Assembly;

(4) To represent the shareholders, whether as plaintiff or as defendant, in all differences with the General Manager;

(5) To call special meetings of the General Assembly when it thinks proper;

(6) To declare that it opposes or does not oppose propositions for sale, alienation or hypothecation which may be made by the General Manager; to provide judiciously for the replacement of the General Manager in case of death, resignation or dismissal, until the General Assembly shall have named another manager.

Each of its members, moreover, has the right to examine the books and documents of the Company whenever he may choose to do so.

The Supervising Council may delegate three of its members for a year, who shall be particularly charged with examining as often as possible, the books, the cash, and all the transactions of the administration.

Compensation for loss of time may be granted to the delegates, of which the amount shall be determined by the General Assembly.

*Article 73.*—In case new legislative provisions shall permit more extended powers to be conferred upon the Supervising Council than those which result from the present by-laws, without impairing their position as sleeping partners, the delegates then in office may, by virtue of a resolution of the General Assembly, exercise all or a part of these powers, as if they were laid down in said by-laws.

### *The General Assembly*

*Article 74.*—The General Assembly shall be composed of one thousand delegates at most, named by the whole body of members and supporters;

*Article 75.*—The election of delegates shall be made by industrial classes, and proportionally to the number of members and supporters in each class.

The bulletin of the Bank will announce before the elec-

tions the number of delegates to be named by each profession and locality.

*Article 76.*—The Annual Meeting of the General Assembly shall take place regularly in the first month of each year.

Meetings shall take place upon calls issued either by the General Manager or by the Supervising Council. They shall be held at Paris, at the office of the Company, or where designated by the newspapers in which notice of the meeting is published.

The General Assembly, composed as above described, represents the whole body of shareholders and supporters.

No one can be represented by another shareholder or supporter.

*Article 77.*—The President of the Supervising Council, or, in his absence, the eldest of his two colleagues, shall preside over the General Assembly. The Board shall be composed of the President and four other members chosen by the Assembly, and fulfilling the functions of Secretary and Tellers.

*Article 78.*—Decisions shall be made by a majority of votes of members present, whatever their number.

*Article 79.*—In addition to the Annual General Assembly, there may be special General Assemblies, summoned either by the management, or by the Supervising Council.

*Article 80.*—The proceedings shall be recorded as minutes in a book kept for that purpose, and signed by the members of the Board.

*Article 81.*—The objects of the General Assembly shall be:

(1st.) To receive the accounts and reports of the management, and to approve them if possible, after having heard the advice of the Supervising Council;

(2nd.) To amend, if necessary, the by-laws, upon the motion of the Manager or of his delegates, all constitutional powers for that purpose being granted to him;

(3rd.) To deliberate upon all questions submitted to it, nevertheless without interfering with the management;

(4th.) To decide upon any increase in the capital, and to

order the issue of additional shares in connection therewith;

(5th.) To order the recall of the Manager, upon the motion of the Supervising Council;

(6th.) To appoint another Manager if necessary;

(7th.) To appoint the members of the Supervising Council and to provide every year for replacing them;

(8th.) To determine the rate of discount for the coming year;

(9th.) To point out the general needs of the Company, and the means of satisfying them.

### *Dissolution, Reorganization and Liquidation*

*Article 82.*—By the mere fact of the cessation of the functions of the Manager, whether caused by his dismissal, decease or resignation, both he and his representatives will have only the position and rights of simple partners.

*Article 83.*—Immediately upon the cessation of functions of the Manager, for any of the above-mentioned causes, the Company shall reorganize with the same by-laws and conditions, and under the name of the new manager, who shall give his name as that of the firm, and he shall be forthwith furnished with an inventory of the assets and liabilities of the Company, as upon its liquidation, to avoid the confusion of replacing the obligations of the former manager with those of the new manager.

*Article 84.*—In no case shall seals be placed upon the notes, books or papers of the Company.

*Article 85.*—If the Company reaches the point of dissolution, without such contemplated reorganization as was described above, it shall be liquidated under the supervision of the Council, by the person named for the purpose by the General Assembly, which will at the same time define the powers of the liquidator.

The assets of the Company shall be divided among those who are entitled to them, or devoted to institutions of public service, or used to found a new company, as decided by the General Assembly.

*Article 86.*—All differences which may arise between the shareholders and the Company's Managers, and in general all to which the carrying out of these presents may give birth, shall be finally determined, without appeal or recourse of any sort, by three arbiters, friendly compounders, who shall form a tribunal and court of last resort.

These arbiters shall be named by the Tribunal of Commerce of the Seine, at the request of the first-coming party, unless the parties have agreed upon arbiters themselves.

These arbiters shall dispense with all legal delays and formalities.

In case of such differences, each shareholder must choose a domicile in Paris, and all notices and appointments sent to such domiciliary address shall be valid, without regard to the real place of residence of said party, nor to the delays caused by distance.

Failing such choice of domicile, all judicial and extrajudicial notifications shall be made with full authority, at the office of the Procurator of the Republic at the Court of First Instance of the Seine.

*Article 87.*—In connection with the People's Bank there shall be appointed a committee of lawyers and arbiters, the latter chosen especially from among the workers, entitled: Council of Litigation and Arbitration.

The function of this committee shall be to give advice in all matters of law and of legislation; to secure conformity with the law of all actions of the Bank, and to settle, by friendly conciliation, differences that may arise between the Company and its members.

This committee shall be chosen by the Manager.

*Article 88 and last.*—As soon as circumstances permit the conversion of the present Company into a joint stock company, the formalities necessary for such conversion shall be discharged by the Manager and three other members of the Supervising Council.

Full power from today is granted to these four commissioners, for the purpose of taking up with the Government

the authorizations required by law, of consenting to any changes and modifications in the present by-laws that may be demanded and of enacting definite by-laws, acceptable to the authorities, by an authorized document.

Done and approved at Paris, in the office of the notaries, in the year one thousand eight hundred and forty-nine, the thirty-first day of January, and after reading, signed by the proponent, together with the notaries.

## VI

### INTEREST AND PRINCIPAL

#### INTRODUCTORY NOTE

The famous debate on "Interest and Principal" between Proudhon and Frederic Bastiat, the great economist, was first printed in the columns of Proudhon's paper, *The Voice of the People*, in 1849. Each party wrote a letter weekly, alternating for twelve weeks. The former said that interest is paid for the use of the bank's credit, which can be furnished gratuitously by a system of mutual credit. The latter contended that it is paid for the use of capital, which he claimed was productive and of which the capitalist "deprives" himself in order to lend it. The following are extracts from Proudhon's letters in refutation of Bastiat's arguments. (Editor.)

#### *A Loan Is a Service \**

On the one hand, it is very true, as you have unquestionably established, that a loan is a *service*. And as every service has a *value*, and, in consequence, is entitled by its nature to a reward, it follows that a loan ought to have its *price*, or, to use the technical phrase, ought to *bear interest*.

But it is also true, and this truth is consistent with the preceding one, that he who lends, under the ordinary conditions of the professional lender, does not *deprive* himself, as you phrase it, of the capital which he lends. He lends it, on

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\* From the second letter: Proudhon to Bastiat

the contrary, precisely because the loan is not a deprivation to him; he lends it because he has no use for it himself, being sufficiently provided with capital without it; he lends it, finally, because he neither intends nor is able to make it valuable to him personally,—because, if he should keep it in his own hands, this capital, sterile by nature, would remain sterile, whereas, by its loan and the resulting interest, it yields a profit which enables the capitalist to live without working. Now, to live without working is, in political as well as moral economy, a contradictory proposition, an impossible thing.

The proprietor who possesses two estates, one at Tours, and the other at Orleans, and who is obliged to fix his residence on the one which he uses, and consequently to abandon his residence on the other, can this proprietor claim that he deprives himself of anything, because he is not, like God, ubiquitous in action and presence? As well say that we who live in Paris are deprived of a residence in New York! Confess, then, that the privation of the capitalist is akin to that of the master who has lost his slave, to that of the prince expelled by his subjects, to that of the robber who, wishing to break into a house, finds the dogs on the watch and the inmates at the windows.

Now, in the presence of this affirmation and this negation diametrically opposed to each other, both supported by arguments of equal validity, but which, though not harmonizing, cannot destroy each other, what course shall we take?

You persist in your affirmation, and say: "You do not wish to pay me interest? Very well! I do not wish to lend you my capital. Try working without capital." On the other hand, we persist in our negation, and say: "We will not pay you interest, because interest, in social economy, is a premium on idleness, the primary cause of misery and the inequality of wealth." Neither of us is willing to yield, we come to a stand-still.

This, then, is the point at which Socialism takes up the question. On the one hand, the commutative justice of interest; on the other, the organic impossibility, the immor-

ality of interest; and, to tell you the truth at once, Socialism aims to convert neither party—the Church, which denies interest, nor the political economy, which supports it—especially as it is convinced that both are right. Let us see, now, how it analyzes the problem, and what it proposes, in its turn, that is superior to the arguments of the old money-lenders, too vitally *interested* to be worthy of belief, and to the ineffectual denunciations uttered by the Fathers of the Church.

Since the theory of usury has finally prevailed in Christian as well as in Pagan countries; since the hypothesis, or fiction, of the productivity of capital has become a practical fact among nations—let us accept this economic fiction as we have accepted for thirty-three years the constitutional fiction, and let us see what it results in when carried to its ultimate. Instead of simply rejecting the idea, as the Church has done—a futile policy—let us make from it a historical and philosophical deduction; and, since the word is more in fashion than ever, let us trace the evolution.

Moreover, this idea must correspond to some reality; it must indicate some necessity of the mercantile spirit; else nations never would have sacrificed to it their dearest and most sacred beliefs.

See, then, how Socialism, entirely convinced of the inadequacy of the economic theory as well as of the ecclesiastical doctrine, treats in its turn the question of usury.

First, it observes that the principle of the productivity of capital is no respecter of persons, grants no privileges; it applies to every capitalist, regardless of rank or dignity. That which is legitimate for Peter is legitimate for Paul; both have the same right to usury as well as to labor. When, then,—I go back to the example which you have used,—when you lend me, at interest, the plane which you have made for smoothing your planks, if, in my turn, I lend you the saw which I have made for cutting up my lumber, I also shall be entitled to interest.

The right of capital is alike for all; all, in the proportion



that they lend and borrow, ought to receive and pay interest. Such is the first consequence of your theory, which would not be a theory, were not the right which it establishes universal and reciprocal; this is self-evident.

Let us suppose, then, that of all the capital that I use, whether in the form of machinery or of raw material, half is lent to me by you; suppose also that of all the capital used by you half is lent to you by me; it is clear that the interests which we must pay will offset each other; and, if equal amounts of capital are advanced, the interests cancelling each other, the balance will be zero.

In society, it is true things do not go on precisely in this way. The loans that the producers reciprocally make to each other are not always equal in amount, therefore the interests that they have to pay are also unequal; hence the inequality of conditions and fortunes.

But the question is to ascertain whether this equilibrium in the loaning of capital, labor, and skill, and, consequently, equality of income for all citizens, perfectly admissible in theory, is capable of realization in practice; whether this realization is in accordance with the tendencies of society; whether, finally and unquestionably, it is not the inevitable result of the theory of usury itself.

Now, this is what Socialism affirms, now that it has arrived at an understanding of itself, the Socialism which no longer distinguishes itself from economic science, studied at once in the light of its accumulated experience and in the power of its deductions. In fact, what does the history of civilization, the history of political economy, tell us concerning this great question of interest?

It tells us that the mutual loaning of capital, material, or immaterial, tends more and more towards equilibrium, owing to the various causes enumerated below, which the most conservative economists cannot dispute:—

*First*—The division of labor, or the separation of industries, which, infinitely multiplying both tools and raw material, multiplies in the same proportion the loans of capital.

*Second*—The accumulation of capital, an accumulation which results from diversity of industries, producing between capitalists a competition similar to that between merchants, and, consequently, effecting gradually a lowering of the rent of capital, a reduction of the rate of interest.

*Third*—The continually increasing power of circulation which capital acquires through the use of specie and bills of exchange.

*Fourth*—Finally, public security.

Such are the general causes which, for centuries have developed among producers a reciprocity of loans tending more and more to equilibrium and consequently to a more and more even balance of interests, to a continual diminution of the price of capital.

These facts cannot be denied; you yourself admit them; only you mistake their principle and purport, by giving capital the credit for the progress made in the domain of industry and wealth, whereas this progress is caused not by capital, but by the circulation of capital.

The facts being thus analyzed and classified Socialism asks whether, in order to bring about this equilibrium of credit and income, it is not possible to act directly, not on capital, remember, but on circulation; whether it is not possible so to organize this circulation as to inaugurate, at one blow, between capitalists and producers (two classes now hostile, but theoretically identical) equivalence of loans, or, in other words, equality of fortunes.

To this question Socialism again replies: Yes, it is possible, and in several ways.

Suppose, in the first place, to confine ourselves to the present conditions of credit, the operations of which are carried on mainly through the intervention of specie—suppose that all the producers in the republic, numbering more than ten millions, tax themselves, each one, to the amount of only one per cent of their capital. This tax of one per cent upon the total amount of the capital of the country, both real

and personal, would amount to more than a thousand million of francs.

Suppose that by means of this tax a bank be founded, in competition with the Bank (miscalled) of France, discounting and giving credit on mortgages at the rate of one-half of one per cent.

It is evident, in the first place, that the rate of discount on commercial paper, the rate of loans on mortgages, the dividend of invested capital, etc., being one-half of one per cent, the cash capital in the hand of all usurers and money-lenders would be immediately struck with absolute sterility; interest would be zero, and credit gratuitous.

If commercial credit and that based on mortgages—in other words, if money capital, the capital whose exclusive function is to circulate—was gratuitous, house capital would soon become so; in reality, houses no longer would be capital; they would be merchandise, quoted in the market like brandy and cheese, and rented or sold—terms which would then be synonymous—at cost.

If houses, like money, were gratuitous—that is to say, if use was paid for as an exchange, and not as a loan—land would not be slow in becoming gratuitous also; that is, farm-rent, instead of being rent paid to a non-cultivating proprietor, would be the compensation for the difference between the products of superior and inferior soils; or, better, there no longer would exist, in reality, either tenants or proprietors; there would be only husbandmen and wine-growers, just as there are joiners and machinists.

Do you wish another proof of the possibility of making all capital gratuitous by the development of economic institutions?

Suppose that instead of our system of taxes, so complex, so burdensome, so annoying, which we have inherited from the feudal nobility, a single tax should be established, not on production, circulation, consumption, habitation, etc., but in accordance with the demands of justice and the dictates of

economic science, on the net capital falling to each individual. The capitalist, losing by taxation as much as or more than he gains by rent and interest, would be obliged either to use his property himself or to sell it; economic equilibrium again would be established by this simple and moreover inevitable intervention of the treasury department.

Such is, substantially, Socialism's theory of capital and interest.

Not only do we affirm, in accordance with this theory (which, by the way, we hold in common with the economists) and on the strength of our belief in industrial development, that such is the tendency and the import of lending at interest; we even prove, by the destructive results of economy as it is, and by a demonstration of the causes of poverty, that this tendency is necessary, and the annihilation of usury inevitable.

In fact, rent, reward of capital, interest on money, in one word, usury, constituting, as has been said, an integral part of the price of products, and this usury not being the same for all, it follows that the price of products, composed as it is of wages and interest, cannot be paid by those who have only their wages, and no interest to pay it with; so that, by the existence of usury, labor is condemned to idleness and capital to bankruptcy.

This argument, one of that class which mathematicians call the *reductio ad absurdum*, showing the organic impossibility of lending at interest, has been repeated a hundred times by Socialism. Why do not the economists notice it?

Do you really wish to refute the ideas of Socialism on the question of interest? Listen, then, to the questions which you must answer:—

1. Is it true that, though the loaning of capital, when viewed objectively, is a *service* which has its value, and which consequently should be paid for, this loaning, when viewed subjectively, does not involve an actual sacrifice on the part of the capitalist; and consequently that it does not establish the right to set a price on it?

2. Is it true that usury, to be unobjectionable, must be equal; that the tendency of society is towards this equalization; so that usury will be entirely legitimate only when it has become equal for all,—that is, non-existent?

3. Is it true that a national bank, giving credit and discount *gratis*, is a possible institution?

4. Is it true that the effects of the gratuity of credit and discount, as well as that of taxation when simplified and restored to its true form, would be the abolition of rent of real estate, as well as of interest on money?

5. Is it true that the old system is a contradiction and a mathematical impossibility?

6. Is it true that political economy, after having, for several thousand years, opposed the view of usury held by theology, philosophy, and legislation, comes, by the application of its own principles, to the same conclusion?

7. Is it true, finally, that usury has been, as a providential institution, simply an instrument of equality and progress, just as, in the political sphere, absolute monarchy was an instrument of liberty and progress, and as, in the judicial sphere, the boiling-water test, the duel, and the rack were, in their turn, instruments of conviction and progress?

These are the points that our opponents are bound to examine before charging us with scientific and intellectual weakness; these, Monsieur Bastiat, are the points on which your future arguments must turn, if you wish them to produce a definite result. The question is stated clearly and categorically: permit us to believe that, after having examined it, you will perceive that there is something in the Socialism of the nineteenth century that is beyond the reach of your antiquated political economy.

*The Circulation of Capital, Not Capital Itself, Gives Birth to Progress \**

Thus it is with interest on capital, legitimate when a loan was a service rendered by citizen to citizen, but which ceases

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\* From the fourth letter: Proudhon to Bastiat.

to be so when society has acquired the power to organize credit gratuitously for everybody. This interest, I say, is contradictory in its nature, in that, on the one hand, the service rendered by the lender is entitled to remuneration, and that, on the other, all wages suppose either a production or a sacrifice, which is not the case with a loan. The revolution which is effected in the legitimacy of lending originates there. That is how Socialism states the question; that, therefore, is the ground on which the defenders of the old régime must take their stand.

To confine one's self to tradition, to limit one's self to saying a loan is a service rendered which ought, therefore, to be compensated, without entering into the considerations which tend to annihilate interest, is not to reply. Socialism, with redoubled energy, protests, and says: I have nothing to do with your service,—service for you, but robbery for me,—as long as it is possible for society to furnish me with the same advantages which you offer me, and that without reward. To impose on me such a service in spite of myself, by refusing to organize the circulation of capital, is to make me submit to an unjust discount, is to rob me.

Thus your whole argument in favor of interest consists in confounding epochs,—I mean to say, in confounding that which is legitimate in lending with that which is not,—whereas I, on the contrary, carefully distinguish between them. I will proceed to make this intelligible to you by an analysis of your letter.

I take up your arguments one by one.

In my first reply I made the observation that he who lends does not *deprive* himself of his capital. You reply: What matters it, if he has created his capital for the express purpose of lending it?

In saying that you betray your own cause. You acquiesce, by those words, in my *antithesis*, which consists in saying: The hidden reason why lending at interest, legitimate yesterday, is no longer so today, is because lending, in itself, does not involve privation. I note this confession.

But you cling to the intention: What matters it, you say, if the lender has created his capital for the express purpose of lending it?

To which I reply: And what do I care, indeed, for your intention, if I have really no need of your service, if the pretended service which you wish to do me becomes necessary only through the ill-will and incapacity of society? Your credit resembles that which the pirate gives to his captive, when he gives him his liberty in return for a ransom. I protest against your credit at five per cent, because society is able and ought to give it to me at zero per cent; and, if it refuses to do so, I accuse it, as well as you, of robbery; I say that it is an accomplice, an abettor, an organizer of robbery.

Comparing a loan to a *sale*, you say: Your argument is as valid against the latter as against the former, for the latter who sells hats does not *deprive* himself.

No, for he receives for his hats—at least he is reputed to receive for them—their exact value immediately, neither *more* nor *less*. But the capitalist lender not only is not deprived, since he recovers his capital intact, but he receives more than his capital, more than he contributes to the exchange; he receives in addition to his capital an interest which represents no positive product on his part. Now, a service which costs no labor to him who renders it is a service which may become gratuitous: this you have already told us yourself.

After having recognized the *non-privation* attendant upon a loan, you admit further “that *it is not theoretically impossible that interest, which today constitutes an integral part of the price of commodities, may become the same for all, and thereby be abolished.*” “But,” you add, “for this other things are needed than a new bank. Let Socialism endow all men with equal activity, skill, honesty, economy, foresight, needs, desires, virtues, vices, and chances even, and then it will have succeeded.”

So that you enter upon the question only to immediately avoid it. Socialism, at the point which it has now reached,

justly claims that it is by means of a reform in banking and taxation that we can arrive at this balance of interests. Instead of passing over, as you do, this claim of Socialism, stop here and refute it: you will thereby demolish all the utopias of the world. For Socialism affirms—and without this affirmation Socialism could not exist, it would be a nonentity—that it is not by endowing all men with equal “activity, skill, honesty, economy, foresight, needs, desires, virtues, vices, and chances even” that we shall succeed in balancing interest and equalizing incomes; it maintains that we must, on the contrary, begin by centralizing credit and abolishing interest, in order to equalize faculties, needs, and chances. Let there be no more robbers among us, and we shall be all virtuous, all happy! That is Socialism’s creed. I feel the keenest regret in telling you of it, but really your acquaintance with Socialism is so slight that you run against it without seeing it.

You persist in attributing to capital all social progress in the domain of wealth, while I, for my part, attribute it to circulation; and you say that here I mistake the cause for the effect.

But, in maintaining such a proposition, you unwittingly refute your own argument. J. B. Say has shown—and of this fact you are not ignorant—that the *transportation* of a value, be that value called money or merchandise, is a value in itself; that it is as real a product as wheat and wine; that consequently the service of the merchant and banker deserves to be remunerated equally with that of the husbandman and wine-grower. It is on this ground that you stand when you claim wages for the capitalist who, by lending his capital, the return of which is guaranteed him, performs the office of transportation, of circulation. In lending, you said in your first letter, I render a service, I create a value. Such were your words, which we have admitted: in this respect we both agreed with the master.

I am justified, then, in saying that it is not capital itself, but the circulation of capital,—that kind of service, product, merchandise, value, or reality, which political economy calls



*movement or circulation*, and which, indeed, constitutes the whole subject-matter of economic science,—that causes wealth. We remunerate all who render this service; but we affirm that, as far as capital, properly speaking, or money is concerned, it is society's duty to render it to us gratuitously; that if it does not do so, there is fraud and robbery. Do you now understand the real point on which the social question turns?

After having expressed your regret at the division of capitalists and laborers into two hostile classes,—which surely is not the fault of Socialism,—you take the very useless trouble of showing me by illustrations that every laborer is in some degree a capitalist, and does a work of capitalization,—that is, usury. And who, pray, ever dreamed of denying it? Who has told you that what we recognize as legitimate once in the capitalist, we condemn at the same time in the laborer?

Yes, we know that the price of all merchandise and service may be analyzed at the present day as follows:—

1. Raw material;
2. Compensation of tools, and incidental expenses;
3. Wages of labor.
4. Interest of capital.

Thus it is in all kinds of business,—agriculture, industry, commerce, and transportation. These are the *fourches caudines* of every one who is not a parasite, be he capitalist or laborer. You need not enter into long details upon this subject, very interesting though they are and clearly delightful to your imagination.

I repeat: The problem of Socialism is to make this fourth element which enters into the price of commodities—interest on capital—equal for all producers, and consequently nugatory. We maintain that this is possible; that, if this is possible, it is society's duty to procure gratuitous credit for all; that, failing to do this, it will not be a society, but a conspiracy of capitalists against laborers, a compact for purposes of robbery and murder.

Understand then, once for all, that it is not necessary to

show us how capital is formed, how it accumulates through interest, how interest enters into the price of products, how all laborers are themselves guilty of the sin of usury: we have long known all these things, just as we are convinced of the personal honesty of annuitants and proprietors.

We say: The economic system based on the fiction of the productivity of capital, justifiable once, is henceforth illegitimate. Its inefficacy and malfeasance have been exposed; it is the cause of all existing misery, the present mainstay of that old fiction of representative government which is the last form of tyranny among men.

I will not detain myself with the purely religious considerations with which your letter closes. Religion, allow me to say, has nothing to do with political economy. A real science is sufficient unto itself; otherwise, it cannot exist. If political economy needs the sanction of religion to make up for the inadequacy of its theories, and if, in its turn, religion, as an excuse for the barrenness of its dogmas, pleads the exigencies of political economy, the result will be that political economy and religion, instead of mutually sustaining each other, will accuse each other, and both will perish.

Begin, then, by doing justice, and liberty, fraternity, and wealth will increase; even the happiness of another life will be only the surer. Is the inequality of capitalistic income, yes or no, the primary cause of the physical, moral, and intellectual poverty which today afflicts society? Is it necessary to equalize the income of all men, to make the circulation of capital gratuitous by assimilating it to the exchange of products, and to destroy interest? That is what Socialism asks, and it must have an answer.

Socialism, in its most positive conclusions, furnishes the solution in the democratic centralization and gratuity of credit, combined with a single tax, to replace all other taxes, and to be levied on capital.

Let this solution be verified; let its application be tried. That is the only way to refute Socialism; except that is done,

we shall shout louder than ever our war-cry: *Property is robbery!*

*The Origin of Ground Rent\**

I said before that in ancient times the landed proprietor, when neither he nor his family farmed his land, as was the case among the Romans in the early days of the Republic, cultivated it through his slaves: such was the general practice of patrician families. Then slavery and the soil were chained together; the farmer was called *adscriptus glebæ*, joined to the land; property in men and things was undivided. The price of a farm depended (1) upon its area and quality of its soil, (2) upon the quantity of stock, and (3) upon the number of slaves.

When the emancipation of the slave was proclaimed, the proprietor lost the man and kept the land; just as today, in freeing the blacks, we leave the master his property in land and stock. Nevertheless, from the standpoint of ancient law as well as of natural and Christian right, man, born to labor, cannot dispense with the implements of labor; the principles of emancipation involved an agrarian law which guarantees them to him and protects him in their use: otherwise, this pretended emancipation was only an act of hateful cruelty, an infamous deception, and if, as Moses said, interest, or the yearly income from capital, reimburses capital, might it not be said that servitude reimburses property? The theologians and the law-givers of the time did not understand this, and by an irreconcilable contradiction, which still exists, they continued to rail at usury, but gave absolute to rent.

The result was that the emancipated slave, and, a few centuries later, the enfranchised serf, without means of existence, was obliged to become a tenant and pay tribute. The master grew still richer. I will furnish you, he says, with land; you shall furnish the labor; and we will divide the products. It

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\* From the sixth letter: Proudhon to Bastiat.

was a reproduction on the farm of the ways and customs of business. I will lend you ten talents, said the moneyed man to the workingman; you shall use them; and then either we will divide the profits, or else, as long as you keep my money, you shall pay me a twentieth; or, if you prefer, at the expiration of the loan, you shall return double the amount originally received. From this sprang ground-rent, unknown to the Russians and the Arabs. The exploitation of man by man, thanks to this transformation, passed into the form of law: Usury, condemned in the form of lending at interest, tolerated in the *contrat à la grosse*, was extolled in the form of farm-rent. From that moment commercial and industrial progress served to make it only more and more customary. This was necessary in order to exhibit all the varieties of slavery and robbery, and to establish the true law of human liberty.

Once engaged in this practice of *interesse*, so strangely understood, so improperly applied, society began to revolve in the circle of its miseries. Then it was that inequality of conditions seemed a law of civilization, and evil a necessity of our nature.

Two ways, however, seemed open to laborers to free themselves from exploitation by the capitalist: one was, as we said above, the gradual balancing of values and consequently a decrease in the price of capital; the other was the reciprocity of interest.

But it is evident that the income from capital, represented mainly by money, cannot be totally destroyed by decreasing it; for, as you well say, sir, if my capital brought me nothing, instead of lending it I should keep it, and the laborer, in consequence of having refused to pay the tithe, would be out of work. As for the reciprocity of usury, it is certainly possible between contractor and contractor, capitalist and capitalist, proprietor and proprietor; but between proprietor, capitalist, or contractor, and the common laborer, it is utterly impossible. It is impossible, I say, as long as in commerce interest on capital is added to the workingman's wages as a

part of the price of merchandise, for the workingman to repurchase what he has himself produced. *To live by working* is a principle which, as long as interest exists, involves a contradiction.

Society once driven into this corner, the absurdity of the capitalistic theory is shown by the absurdity of its consequences; the inherent iniquity of interest results from its homicidal effects, and while property begins and ends in rent and usury, its affinity with robbery will be established. Can it exist under other conditions? For my own part, I say no: but this is an inquiry entirely foreign to the question now under discussion, and I will not enter upon it.

Look now at the situation of both capitalist and laborer, resulting from the invention of money, the power of specie, and the established similarity between the lending of money and the renting of land and houses.

The first,—for it is necessary to justify him, even in your eyes,—controlled by the prejudice in favor of money, cannot gratuitously dispossess himself of his capital in favor of the laborer. Not that such dispossession is a sacrifice, for, in his hands, capital is unproductive; not that he incurs any risk of loss, for, by taking a mortgage as security, he is sure of repayment; not that this loaning costs him the slightest trouble, unless you consider as such counting the money and verifying the security; but because, by dispossessing himself for ever so short a time of his money,—of this money which, by its prerogative, is, as has been so justly said, *power*,—the capitalist lessens his strength and his safety.

This would be otherwise, if gold and silver were only ordinary merchandise; if the possession of coin was regarded as no more desirable than the possession of wheat, wine, oil, or leather; if the simple ability to labor gave a man the same security as the possession of money. While this monopoly of circulation and exchange exists, usury is necessary to the capitalist. His motives, in the light of justice, are not reprehensible: when his money leaves his own vault, his safety goes with it.

Now, this necessity, which is laid upon the capitalist by an involuntary and widespread prejudice, is, as respects the laborer, the most shameful of robberies, as well as the most hateful of tyrannies, the tyranny of force.

What are, indeed, the theoretical and practical consequences to the working-class, to this vital, productive, and moral portion of society, of lending at interest and its counterpart, farm-rent? I today confine myself to the enumeration of some of them, to which I call your attention, and which hereafter, if agreeable to you, shall be the subject of our discussion.

And first, it is the principle of interest, or of *net* product, that enables an individual really and legitimately to live without working: that is the conclusion of your last letter but one, and such, in fact, is the condition to which every one today aspires.

Again: If the principle of *net* product is true of the individual, it must be true also of the nation; for example, the capital of France, both real and personal, being valued at one hundred and thirty-two billions, which yields, at five per cent, an annual income of sixty-six hundred millions, at least half of the French nation might, if it pleased, live without working; in England, where the amount of accumulated capital is much larger than in France, and the population much smaller, the entire nation, from Queen Victoria down to the lowest hanger-on of the son of Liverpool, might live on the product of its capital, promenading with cane in hand, or groaning in public meetings. Which leads to this conclusion, evidently an absurd one, that, thanks to its capital, such a nation has more income than its labor can produce.

Again: The total amount of wages paid annually in France being in the neighborhood of six thousand millions, and the total amount of revenue yielded by capital being also six thousand millions, making the market value of the annual product of the nation twelve thousand millions, the producers, who are also consumers, can and must pay, with the six thousand millions of wages allowed them, the twelve thou-

sand millions which commerce demands of them as the price of its merchandise, and without which the capitalists would find themselves minus an income.

Again: Interest being perpetual in its nature, and never being regarded, as Moses wished, as a repayment of the original capital, and further, it being possible to place each year's income at interest in its turn, thus forming a new loan, and consequently giving rise to a new income, the smallest amount of capital may, in time, yield sums so enormous as to exceed in value a mass of gold as large as the globe on which we live. Price demonstrated this in his theory of liquidation.

Again: The productivity of capital being the immediate and sole cause of the inequality of wealth, and the continual accumulation of capital in a few hands, it must be admitted, in spite of the progress of knowledge, in spite of Christian revelation and the extension of public liberty, that society is naturally and necessarily divided into two classes—a class of exploiting capitalists and a class of exploited laborers.

*Arguments Drawn from the Operations of the Bank of France\**

It is not true—and the facts just cited prove beyond a doubt that it is not—that the decrease of interest is proportional to the increase of capital. Between the *price* of merchandise and *interest* of capital there is not the least analogy; the laws governing their fluctuations are not the same; and all your dinning of the last six weeks in relation to capital and interest has been utterly devoid of sense. The universal custom of banks and the common sense of the people give you the lie on all these points in a most humiliating manner.

Now, would you believe, sir,—for indeed you do not seem to be well-informed about anything,—that the Bank of France, an association composed of honest people, philanthropists, God-fearing men, utterly incapable of compromising with their consciences, continues to charge four per cent on all its discounts without allowing the public to derive the

\* From the eighth letter: Proudhon to Bastiat.

slightest bonus therefrom? Would you believe that it regulates the dividends of its stockholders, and quotes its stock in the money-market, on this basis of four per cent on a capital of four hundred and thirty-one millions not its own? Say, is that robbery, yes or no?

But we have not reached the end. I have not begun to tell you of the crimes of this society of stock-jobbers, founded by Napoleon for the express purpose of supporting parasitic officials and proprietors and sucking the nation's life-blood. A few millions, more or less, are not sufficient to affect dangerously a population of thirty-six millions of men. That portion of the robberies committed by the Bank of France which I have exposed is but a trifle: only the results are worthy of consideration.

The fortune and destiny of the country is today in the hands of the Bank of France. If it would relieve industry and commerce by a decrease of its rate of discount proportional to the increase of its reserves; in other words, if it would reduce the price of its credit to three-fourths of one per cent, which it must do in order to quit stealing,—this reduction would instantly produce, throughout the republic and all Europe, incalculable results. They could not be enumerated in a volume: I will confine myself to the indications of a few.

If, then, the credit of the Bank of France, when that bank has become a National Bank, should be loaned at three-fourths of one per cent instead of at four per cent, ordinary bankers, notaries, capitalists, and even the stockholders of the bank itself, would be immediately compelled by competition to reduce their interest, discount, and dividends to at least one per cent, including incidental expenses and brokerage. What harm, think you, would this reduction do to borrowers on personal credit, or to commerce and industry, who are forced to pay, by reason of this fact alone, an annual tax of at least two thousand millions?

If financial circulation could be effected at a rate of discount representing only the cost of administration, drafting,



registration, etc., the interest charged on purchases and sales on credit would fall in its turn from six per cent to zero,—that is to say, business would then be transacted on a cash basis: there would be no more debts. Again, to how great a degree, think you, would that diminish the shameful number of suspensions, failures, and bankruptcies?

But as in society *net* product is undistinguishable from *raw* product, so in the light of the sum total of economic facts capital is undistinguishable from product. These two terms do not, in reality, stand for two distinct things; they designate relations only. Product is capital; capital is product; there is a difference between them only in private economy; none whatever in public economy.

If, then, interest, after having fallen, in the case of money, to three-fourths of one per cent,—that is, to zero, inasmuch as three-fourths of one per cent represents only the service of the bank,—should fall to zero in the case of merchandise also, by analogy of principles and facts it would soon fall to zero in the case of real estate: rent would disappear in becoming one with liquidation. Do you think, sir, that that would prevent people from living in houses and cultivating land?

If, thanks to this radical reform in the machinery of circulation, labor was compelled to pay to capital only as much interest as would be a just reward for the service rendered by the capitalist, specie and real estate being deprived of their reproductive properties and valued only as products,—as things that can be consumed and replaced,—the favor with which specie and capital are now looked upon would be wholly transferred to products; each individual, instead of restricting his consumption, would strive only to increase it. Whereas, at present, thanks to the restriction laid upon consumable products by interest, the means of consumption are always very much limited, then, on the contrary, production would be insufficient: Labor would then be secure in fact as well as in right.

The laboring class, gaining at one stroke the five thousand millions, or thereabouts, now taken in the form of interest

from the ten thousand which it produces, plus five thousand millions which this same interest deprives it of by destroying the demand for labor, plus five thousand millions which the parasites, cut off from a living, would then be compelled to produce, the national production would be doubled and the welfare of the laborer increased four-fold. And you, sir, whom the worship of interest does not prevent from lifting your thoughts to another world,—what say you to this improvement of affairs here below?

Do you see now that it is not the multiplication of capital which decreases interest, but on the contrary, that the decrease of interest multiplies capital?

But all this is displeasing to the capitalists and distasteful to the bank. The bank holds in its hand the horn of plenty which the people have entrusted to it: that horn is the three hundred and forty-one millions of specie accumulated in its vaults, which testify so loudly to the power of the public credit. To revive labor and diffuse wealth everywhere, the bank needs to do but one thing; namely, reduce its rate of discount to such a figure that the sum total of the interest it receives shall be equal to four per cent of ninety millions. It will not do it. For the sake of a few millions more to distribute among its stockholders, and which it steals, it prefers to cause an annual loss to the country of ten thousand millions. In order to reward parasitism, remunerate crime, satisfy the intemperate cravings of two millions of officials, stock-jobbers, usurers, prostitutes, and spies, and preserve this leper of a Government, it will cause, if necessary, thirty-four millions of men to rot in poverty. Once more, I ask, is that robbery? Is that rapine, plunder, premeditated and willful murder?

Have I told all?—No; that would require ten volumes; but I must stop. I will close by considering a stroke which seems to me a masterpiece of its kind, and to which I ask your undivided attention. A defender of capital, you are not acquainted with its tricks.

The amount of specie, I will not say existing, but circulat-

ing in France, including the bank's reserve, does not exceed, by common estimation, one thousand millions.

At four per cent interest—I am reasoning on the supposition of paid credit—the laboring people should pay forty millions annually for the use of this capital.

Can you, sir, tell me why, instead of forty millions, we are paying sixteen hundred millions—I say *sixteen hundred millions*—as the reward of this capital?

“Sixteen hundred millions! One hundred and sixty per cent! Impossible!” you exclaim. Did I not tell you, sir, that you knew nothing about political economy? This is the fact, though to you, I am sure, it is still an enigma.

The amount of mortgages, according to the most reliable authorities, is twelve thousand millions; some put it at fourteen thousand millions;

We will say.....	12,000 millions
Amount of notes of hand, at least....	6,000 millions
Amount invested in sleeping partner- ship, about.....	2,000 millions
To which should be added the public debt .....	8,000 millions
	<hr/>
Total.....	28,000 millions

which agriculture, manufactures, and commerce, in a word, labor, which produces everything, and the State, which produces nothing and is supported by labor, owe to capital.

All these debts—note this point—arise from money loaned, or said to have been loaned, at four, five, six, eight, twelve, and even fifteen per cent.

Taking six per cent as the average rate of interest on the first three items, which amount to twenty thousand millions, they would yield twelve hundred millions. Add the interest on the public debt, which is about four hundred millions, and we have altogether sixteen hundred millions of interest *per annum* on a capital of one thousand millions.

Now, then, tell me, is it in this case also the scarcity of

specie that causes the enormous amount of interest? No, for all these amounts were loaned, as we have seen, at an average rate of six per cent. How, then, has an interest, stipulated at six per cent, become an interest of one hundred and sixty per cent? I will tell you.

You, sir, who regard all capital as naturally and necessarily productive, know that this productivity is not possessed by all kinds of property in the same degree; that it belongs mainly to two kinds, the kind known as real estate (land and houses), if we have a chance to lease them (which is not always easy or always safe), and the kind known as money. Money, money especially! that is the capital *par excellence*, the capital which is lent, which is hired, which is paid for, which produces all those wonderful financiers whom we see manœuvring at the bank, at the stock exchange, and at all the interest and usury shops.

But money is not, like land, capable of cultivation, nor, like houses or clothes, can it be consumed by use. It is only a *token of exchange*, receivable by all merchants and producers, and with which a shoemaker, for example, can buy him a hat. In vain, through the agency of the bank, does paper, little by little and with universal consent, get substituted for specie: the prejudice sticks fast, and if bank paper is received in lieu of specie, it is only because the opinion prevails that it can be exchanged at will for specie. Specie alone is in demand.

When I lend money, then, it is really the power to exchange my unsold product of today or of the future which I lend: money, in itself, is useless. I take it only to expend it; I neither consume nor cultivate it. The exchange once consummated, the money again becomes transferable, and capable, consequently, of being loaned anew. Thus it goes on, and as, by the accumulation of interest, money-capital, in the course of exchange, always returns to its source, it follows that the new loan, always made by the same hand, always benefits the same persons.

Do you say that, inasmuch as money serves to facilitate

the exchange of capital and products, the interest paid on it is a compensation not so much for the money itself as for the capital exchanged; and that, thus viewed, the sixteen hundred millions of interest paid on one thousand millions of specie represent really the reward of from twenty-five to thirty thousand millions of capital? That has been said or written somewhere by an economist of your school.

Such an allegation cannot be sustained for one moment. How happens it, I ask you, that houses are rented, that lands are leased, that merchandise sold on credit bears interest? Just because of the use of specie; specie, which intervenes, as a fiscal agent, in all transactions; specie, which prevents houses and lands from being exchanged instead of loaned, and merchandise from being sold for cash. Specie, then, intervening everywhere as a supplementary capital, as an agent of circulation, as a means of security,—this it is precisely that we pay for, and the remuneration of the service rendered by it is exactly the point now in question.

And since in another place we have seen from an explanation of the workings of the Bank of France and the consequences of the accumulation of its metallic reserve, that a capital of ninety millions of specie, having to produce an annual interest of four per cent, admits of a rate of discount of three, two, one, or even three-fourths of one per cent, according to the amount of business transacted by the bank, it is very evident, further, that the sixteen hundred millions of interest which the nation pays to its usurers, bankers, bondholders, notaries, and sleeping-partners are simply the rent of one thousand millions of gold and silver, unless you prefer to acknowledge with me that these sixteen hundred millions are obtained by robbery.

*Definition of Capital Substituted for the Inexact Definitions of the Economists—Appeal to Double Entry Bookkeeping—Accountability of Social Classes—Proofs Derived Therefrom—Reconciling the Concessions on the Risks of Capital—Revolution, Political, Economic and Scientific \**

Capital, according to J. B. Say, is *the simple accumulation of products.*

The idea of accumulation, then, as well as that of product, enters into the conception of capital. That is a second step. Now, all products are susceptible of accumulation; then all products may become capital; then M. Joseph Garnier's enumeration of the different forms that capital takes is incomplete, and, therefore, inexact, in that it excludes those products which serve as the subsistence of laborers, such as wheat, wine, oil, food, etc. These products may be called capital as well as ships, tools, cattle, money, and all that is included under the name of instrument or raw material.

Rossi: Capital is a *product saved with a view to reproduction.*

*Reproduction*—in other words, the destiny of product,—that is a third idea involved in the conception of capital. *Product, accumulation, reproduction,*—three different ideas which enter into this seemingly simple notion of capital.

Now, just as all products may be accumulated, so may they serve, and serve effectively, when consumed by the laborer, in reproduction. The bread which sustains the laborer, the grass on which animals feed, the coal which produces steam, as well as land, wagons, and machinery, all serve in reproduction, all, at the moment of consumption, are capital. Everything which is consumed, indeed, is consumed, or is regarded as consumed, reproductively: that which serves to maintain or move machinery, as well as the machinery itself; that which nourishes the laborer, as well as the material on which the labor is expended. Every product becomes, then, at a given moment, capital: the theory which

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\* From the tenth letter: Proudhon to Bastiat.

distinguishes between *reproductive* consumption and *unproductive* consumption, meaning by the latter the daily consumption of wheat, wine, meat, clothing, etc., is false. We shall see in a moment that there is no unproductive consumption save that of the capitalist himself. Thus capital is not a specific and determinate thing, having an existence or reality of its own, like *land*, which is a thing; *labor*, which is another; and *product*, which is the shape given by labor to natural objects, which thereby becomes a third thing. Capital is not, as the economists teach, the fourth in a series the first three terms of which are land, labor, and product: it signifies, as I have said, simply a condition, a relation; it is, by the confession of all authors, *product accumulated with a view to reproduction*.

One step more and we shall have our definition.

How does product become capital? For the fact that product has been accumulated and stored is far from sufficient to warrant us in calling it capital. Neither is it sufficient that it is destined for reproduction: all products are thus destined. Do you not hear it said every day that industry overflows with products, while lacking capital? Now, such would not be the case if the simple accumulation of products, as Say says, or the intention to use them in reproduction, as Rossi would have it, alone sufficed to give them the character of capital. Each producer would then have only to take his own product, and credit himself with its cost, in order to enable himself to produce again, endlessly and unlimitedly. I, then, repeat my question: What is it that suddenly changes the idea of product into that of capital? The economists do not tell us what it is; they do not know what it is; I will even say that not one of them asks what it is.

Here comes in an intermediate idea, the special function of which is to convert product into capital, precisely as a westerly wind has converted the snow which lately fell in Paris into a liquid state: this idea is that of *value*.

That is what J. Garnier dimly saw when he defined capital as *a sum of values used as advances in production*; that is

what you felt when you found the idea of capital, not simply with J. B. Say, in the *accumulation of products*, nor, with Rossi, in *products saved with a view to reproduction*, but in the unconsumed portion of the workingman's wages,—that is, evidently, in the value of his labor or product.

In other words, product, to become capital, must be authentically valued, must be bought, sold, and appraised, and must have its price estimated and fixed by some sort of legal agreement. So that the idea of capital signifies a relation essentially social, a reciprocal act, in the absence of which product remains product.

Thus hides, on leaving the slaughter-house, are the product of the butcher; if you fill a market with them, they are still only hides, they have no value, or rather, no *settled* value; they are not capital, they are still product. But if the tanner buys these hides? He immediately puts them, or to speak more correctly, puts their *value* into his stock, into his advance, and consequently rates them as capital. By the labor of the tanner this capital again becomes product; which product, acquired in its turn, at a price agreed upon, by the bootmaker, passes anew into the state of capital, to become still again, by the labor of the bootmaker, product. This last product not being susceptible of receiving a fresh modification, its consumption is called, by the economists, unproductive, which is a deviation from the theory. The boot made by the bootmaker and acquired by the laborer is changed, by virtue of this acquisition, like the hide passing from the butcher to the tanner and from the tanner to the bootmaker, from a simple product into a value: this value forms a part of the advance of the purchaser, and aids him, like the other objects which he consumes, like the house in which he lives and like the tools which he uses, but in a different way, in the creation of new products. Consumption, then, is always production, provided the consumer works. This movement once started, never ends.

Such is capital. It is not simply an accumulation of products, as Say calls it, nor is it even products accumulated with



a view to subsequent reproduction, as Rossi would say: these definitions inadequately express the idea of capital.

That capital may exist, product, if I may venture to say so, must bear the endorsement of an exchange. All accountants know this perfectly well, when, for example, they enter upon their books the green hides bought by the tanner to his *debit*,—that is, as his capital,—and the tanned or dressed hides to his *credit*,—that is, as his product; the merchant and manufacturer know it still better, when, upon the slightest political disturbance, they find themselves dying at once of dullness and inertia by the side of the merchandise accumulated in their warehouses which they are unable to employ in reproduction,—a pitiful situation, which they describe by saying that the *engaged* capital refuses to disengage itself.

All capital is necessarily product; but all product, even if accumulated, even if destined for reproduction, like the tools in machine-shops, is not on that account capital. Capital, once more, supposes a previous valuation, an exchange, or a putting in circulation; otherwise, it is not capital. If there were only one individual in the world, a solitary laborer producing everything for himself alone, the product of his labor would remain product; it would not become capital. His mind would not distinguish between the following terms: *Product, value, capital, advance, reproduction, consumable funds, circulating funds, etc.* Such ideas would never enter the head of a *solitaire*.

But, in society, exchange once established, and value fixed by discussion, the product of one constantly becomes the capital of another; then, in its turn, this capital, be it raw material, machinery, or means of subsistence, is transformed anew into product. In a word, the idea of capital, in distinction from that of product, expresses the relation of exchanging parties to each other. As concerns society, or the collective man, which corresponds to the solitary laborer to whom I just referred, this distinction does not exist: there is an identity between capital and product similar to that between net and raw product.

I had, then, good grounds for saying, and I am astonished that, after your own explanation of capital, you should have misunderstood my words:—

“Capital is undistinguishable from product. These two terms do not, in reality, stand for two distinct things; they designate relations only. Product is capital; capital is product.”

And my friend Duchene, arguing the same point with Louis Blanc, had even better grounds for saying:—

“The distinctions between *capital and product*—remember it once for all—refer only to individual relationships: in society there is only *production, consumption, and exchange*. It may be said of all industries that they create capital and product indiscriminately. The machinist manufactures capital for railways, factories, and workshops; the clothier manufactures capital for the tailors; the maker of edge-tools manufactures capital for the joiner, the carpenter, and the mason; a plough is product to the manufacturer who sells it, and capital to the farmer who buys it. All professions need *products in order to produce*, or, what amounts to the same thing, *capital in order to manufacture capital*.”

Does that seem unintelligible to you? There is no antinomy about it, at any rate.

From the standpoint of private interests, capital indicates a relation of exchange, preceded by a reciprocal valuation. It is product judicially appraised, so to speak, by two responsible judges, the seller and the buyer, and pronounced, in consequence of this appraisal, an instrument of reproduction. From the standpoint of society capital and product are undistinguishable. *Products exchange for products and capital exchanges for capital* are two perfectly synonymous propositions. What could be simpler, clearer, more positive, more scientific, indeed, than that?

I therefore call capital, *every settled value, whether in land, machinery, merchandise, provisions, or money, serving, or capable of serving, in production*.

Common language confirms this definition. Capital is said to be free when the product, whatever it may be, having been

simply appraised by the parties, can be regarded as realized, or immediately realizable,—that is, converted into such other product as may be desired: in this case the form that capital most readily assumes is that of money. Capital is said to be *engaged*, on the contrary, when the value that constitutes it is employed definitively in production: in this case it assumes all possible forms.

Custom also sustains me. In every enterprise which is started, the contractor, who, instead of money, employs in his business machinery or raw material, begins by estimating it relatively to himself, his risks, and his dangers; and this estimation, one-sided so to speak, *constitutes his capital*, or his investment in business: it is the first thing which he makes account of.

We know what capital is; we must now draw the consequences of our conception so far as interest is concerned. The explanation will be a little long perhaps, but the reasoning employed will be very simple.

Products exchange for products, says J. B. Say; or, in other words, capital exchanges for capital; or yet again, capital exchanges for products, and vice versa: that is the bare fact.

The requisite condition, the *sine qua non*, of this exchange, that which is in fact its essence and its law, is the antagonistic and reciprocal valuation of products. Deprive exchange of the idea of price, and exchange disappears. There is transposition; there is no transaction, no exchange. Product, without price, is a nonentity: as long as it has not received, by the process of buying and selling, its authenticated value, it is regarded as of no effect, it is null. That is the intelligible fact.

Every one gives and receives, according to J. B. Say's formula announcing the material fact; but according to the idea of capital which we have just obtained by our analysis, every one ought to give and receive an equal value. An unequal exchange is a contradiction; universal consent has pronounced it a fraud and a robbery.

Now, from this primary fact that producers continually

stand to each other in the relation of exchanging parties, that they are to each other, by turns and all at once, producers and consumers, laborers and capitalists; and from the precisely equal valuation which constitutes exchange,—it follows that the accounts of all producers and consumers ought to balance each other; that society, viewed from the standpoint of economic science, is nothing else than this general equilibrium of products, services, wages, consumptions, and fortunes; that, in the absence of this equilibrium, political economy is but a meaningless word, and public order, the well-being of laborers, and the security of capitalists and proprietors, a utopia.

Now, this equilibrium, from which must spring a unity of interests and social harmony, today does not exist; it is disturbed by divers causes, which in my opinion may be easily destroyed, and in the front rank of which I place usury, interest, rent. There are, as I have so often said, errors and mismanagement in the bookkeeping, false entries upon the ledgers, of society. Thence arises the wrongfully-acquired luxury of some, the increasing poverty of others; for this reason we have in modern society an inequality of fortunes and all sorts of revolutionary agitation. I shall furnish you, sir, by commercial accounts, with the proof and the counter-proof.

Let us first establish the facts. Products exchanged for products, or to speak more accurately, values exchanged for values: such is the law.

But this exchange is not always made, as we say, on the spot; both parties do not always transfer the objects exchanged at the same time, often, and indeed usually, there is an interval between the two deliveries. Now, strange things happen during this interval, things which disturb the equilibrium and falsify the balance. You shall see to what I refer.

It so happens that one party to the exchange has no product which the other needs, or, which amounts to the same thing, the latter, who is quite willing to sell, wishes to re-

frain from buying. He intends to receive the price of his goods; but he wishes, for the present at least, to accept nothing in exchange. In both cases, the exchanging parties avail themselves of an intermediate commodity, which in commerce plays the part of a go-between, always acceptable and always accepted, and which is known as money. And as money, sought for by everybody, is scarce with everybody, the purchaser obtains it from a banker by giving him his note and paying a premium larger or smaller which is called *discount*. Discount is made up of two things: a *commission*, which is the reward for the service rendered by the banker, and *interest*. We will now tell what *interest* is.

It so happens that the buyer has neither product nor money to give in exchange for the product or capital of which he is in need; but he offers to pay at the end of a certain time in one or more installments. The two cases mentioned above were *cash* sales; in this case *credit* is given. Here, then, the buyer having the advantage of the seller, the inequality is compensated for by causing the product sold to bear interest until the time of payment. It was this compensatory interest, the primal origin of usury, that I referred to in one of my former letters as the agent which compels repayment. It lasts as long as credit; it is the reward of credit; but its especial object, remember, is *the abridgment of the duration of credit*. Such is the meaning, the legitimate significance, of interest.

It often occurs—and this is the extremity in which laborers are usually placed—that capital is absolutely indispensable to the producer, and that yet there is no probability that the latter, for a long time to come, will be able by his labor or his economy, still less by the money at his disposal, to gather together an equivalent, in a word, to repay. He needs twenty, thirty, fifty years, and sometimes a century; and the capitalist or proprietor is unwilling to allow him so long a time. How is this difficulty avoided?

Here begins usurious speculation. A moment ago we saw interest imposed upon the debtor as an indemnity for credit

and a means of hastening repayment: now we shall see interest taken for itself, usury for usury, like war for war or art for art. By a formal, legal, and authentic contract, sanctioned by all jurisprudence, all legislation, and all religions, the borrower binds himself to the lender to pay him, *to the end of time*, interest on his capital, land, furniture, or money; he gives himself, body and soul, himself and his heirs, to the capitalist, and becomes his tributary *ad vitam æternam*. That is what is termed the *settlement of an annuity*, and, in certain cases, *emphyteusis*. By this sort of contract the object passes into the possession of the borrower, who can never be dispossessed of it; who uses it as if he were its purchaser and proprietor; but who is bound forever to pay a revenue,—an endless liquidation, as it were. Such was the economic origin of the feudal system.

But now the thing is managed better.

Emphyteusis and the settlement of annuities are today, almost everywhere, obsolete. It was found that placing product or capital at perpetual interest was altogether too favorable to the capitalist: the need of an improvement in the system was felt. In our day capital and real estate are no longer placed at permanent rental, except with the State: they are *LEASED*,—that is, *lent*,—always at interest, but for a limited period. This new kind of usury is called *rent* or *farm-rent*.

Do you understand, sir, what lending at interest (*rent* or *farm-rent*) for a limited period is? In *emphyteusis* and the settlement of annuities, of which I have just spoken, though the rent was perpetual, the capital was surrendered for all time: between the payment and the enjoyment there was still a kind of equality. Here, however, capital never ceases to belong to him who lends it and who may demand the restoration whenever he chooses. So that the capitalist does not exchange capital for capital, product for product: he gives up nothing, keeps all, does no work, and lives upon his rents, his interest, and his usury in greater luxury than one

thousand, ten thousand, or even a hundred thousand laborers combined can enjoy by their production.

In this system of lending at interest,—farm-rent or rent,—with the power to demand at pleasure the restitution of the sum lent, and to expel the farmer or the tenant, the capitalist has invented something vaster than space, more lasting than time. There is no infinity equal to that of the usury paid by tenants, that usury which is as much worse than the perpetuity of rent as the latter is worse than the cash and credit systems of payment. He who borrows at interest for a limited period pays, pays again, pays continually, and he does not enjoy that for which he pays; he has only a glimpse of it, possesses only its shadow. Must it not have been this kind of usurer which the theologian took for his model when fashioning his god, that atrocious god who exacts eternal payment from the sinner, and never releases him from his debt? Always, forever!

Well, I say that all exchanges of products and capital can be effected by cash payment;

That consequently the banker's discount should be just enough to defray the expenses of the bank and pay for the metal unproductively employed of which the money is made;

And therefore that all interest, rent, or farm-rent is simply a refusal to redeem, a robbery of the borrower or the tenant, and the original cause of all the miseries and upheavals of society.

In my last letter I proved to you, taking the Bank of France as an illustration, that it was an easy and a practical thing to organize equality in exchange, or the gratuitous circulation of capital and products. You were able to see, in this conclusive and decisive fact, only a special instance of monopoly, having nothing to do with the theory of interest. What have I to do, you ask with an air of non-chalance, with the Bank of France and its privileges? I am discussing interest of capital. As if, after landed and commercial credit had been universally organized on a basis

of one-half of one per cent, interest could exist anywhere!

I will show you now, by the bookkeeper's method, that this special payment which always comes in between the two deliveries in an exchange; this tax imposed on circulation; this duty levied on the conversion of products into values and of values into capital; this interest, in short; or, to call it by its own name, this commercial go-between (*interesse*), which you so obstinately defend,—is the identical grand forger which, in order to appropriate, fraudulently and without labor, products that it does not create and services that it never renders, falsifies accounts, enters surcharges and suppositions upon the books, destroys the equilibrium of trade, carries disorder into business, and inevitably brings all nations to despair and poverty. The following, as you will find, is a graphic representation of the workings of society as organized upon each of the two systems,—the system of *interest*, which now prevails, and the system of *gratuity*, which is the one that I propose. All arguments, all dialectic, all controversy must break down in the presence of this intelligible picture of economic movement.

#### 1.—*System of Interest.*

In this system the production, circulation, and consumption of wealth are effected by the cooperation of two distinct and separate classes of citizens,—the proprietors, capitalists, and contractors on the one hand, and the wage-laborers on the other. These two classes, although bitterly hostile to each other, together constitute a close organization which acts in itself, on itself, and by itself.

It follows, therefore, that all the agricultural, commercial, and industrial operations which can be carried on in a country; all the accounts of every manufactory, workshop, bank, etc.,—may be summed up and represented in a single account, the items of which I shall proceed to give.

I designate by A the entire class of proprietors, capitalists, and contractors, which I regard as a single individual, and by B, C, D, E, F, G, H, I, K, L, the class of wage-laborers.



## ACCOUNTS

*Between A, Proprietor-Capitalist-Contractor, and B, C, D, E, F, G, H, I, K, L, Wage-Laborers*

## Chapter One

*Account and Summary of the Personal Operation of A, Proprietor-Capitalist-Contractor*

At the opening of the account A commences his speculation with a capital, I will suppose, of ten thousand francs. This sum constitutes his base of operations; with this he will work and begin his commercial transactions. This establishment of A is expressed in the following manner:—

1. *Cash Due A*

January 1.—Account of capital.....10,000 francs

The capital formed, what will A do next? He will hire laborers, whose products and services he will pay for with his ten thousand francs; that is, he will convert these ten thousand francs into merchandise, which the accountant expresses as follows:—

2. *General Merchandise, to Cash*

Purchases of Products (cash or credit), during the current year, from the laborers hereinafter named:

From B, X (days, of labor or product),

	in all .....				1,000 francs
"	C,	"	"	"	1,000 "
"	D,	"	"	"	1,000 "
"	E,	"	"	"	1,000 "
"	F,	"	"	"	1,000 "
"	G,	"	"	"	1,000 "
"	H,	"	"	"	1,000 "
"	I,	"	"	"	1,000 "
"	K,	"	"	"	1,000 "
"	L,	"	"	"	1,000 "

Total .....10,000 francs

The money converted into merchandise, the proprietor-capitalist-contractor A now has to perform the inverse operation, and convert his merchandise into money. This conversion implies a profit (premium, interest, etc.), since, by the hypothesis and according to the theory of interest, land and houses, capital, and the guaranty and judgment of the contractor are not to be obtained *gratis*. Admit, then, the profit to be ten per cent, according to ordinary commercial custom.

To whom will A sell his products? Necessarily to B, C, D, etc., laborers, for society is wholly composed of A, proprietor-capitalist-contractor, and B, C, D, etc., wage laborers, aside from whom there is nobody. This gives rise to the following account:—

### 3. *The Following Laborers, to General Merchandise*

My sales to B during the current year.....					1,100	francs
“ C “ “ “ .....	C	“	“	“	1,100	“
“ D “ “ “ .....	D	“	“	“	1,100	“
“ E “ “ “ .....	E	“	“	“	1,100	“
“ F “ “ “ .....	F	“	“	“	1,100	“
“ G “ “ “ .....	G	“	“	“	1,100	“
“ H “ “ “ .....	H	“	“	“	1,100	“
“ I “ “ “ .....	I	“	“	“	1,100	“
“ K “ “ “ .....	K	“	“	“	1,100	“
“ L “ “ “ .....	L	“	“	“	1,100	“
Total .....					11,000	francs

The sale completed, it remains to collect the sums due from the purchasers. A new operation, which the accountant enters on his book in the following way:—

4. *Credit, By Cash, to the Following Laborers*

To B,	his payment in specie, December 31,				
	in settlement of his account.....	1,100	francs		
“ C,	“ “ “ “ .....	1,100	“		
“ D,	“ “ “ “ .....	1,100	“		
“ E,	“ “ “ “ .....	1,100	“		
“ F,	“ “ “ “ .....	1,100	“		
“ G,	“ “ “ “ .....	1,100	“		
“ H,	“ “ “ “ .....	1,100	”		
“ I,	“ “ “ “ .....	1,100	“		
“ K,	“ “ “ “ .....	1,100	“		
“ L,	“ “ “ “ .....	1,100	“		
Total .....		11,100	francs		

Thus A's original capital—after being converted into products, after the sale of these products to the consuming laborers B, C, D, etc., and, finally, after payment by these laborers—returns to him increased one-tenth, which is shown on the account of stock by the balance given below:—

5. *Summary of the Operations of A, Proprietor-Capitalist-Contractor, for his Account of Stock December 31*

Dr.	GENERAL MERCHANDISE	Cr.
10,000 francs. Debit of this account to December 31. 1,000 francs. Profit on this account to be credited on the account of A's capital.	Credit of this account to December 31. ....11,000 francs.	<hr/> Balance.....11,000 francs.
<hr/> 11,000 francs.		

We see here, by the way, how and under what conditions products become capital. It is not the stock in hand which, in the inventory, is carried to the credit of the account of capital; it is the *profit*. The profit,—that is, the product sold, delivered, and paid for, or shortly to be paid for; in a word, the product become a value.

Let us now pass to the counterpart of this account, to the account of the laborers.

## Chapter Two

### *Account of the Operations of B, Laborer, with A, Proprietor-Capitalist-Contractor*

B, a laborer, without property, without capital, without work, is hired by A, who gives him employment and takes his product. First operation, which appears in B's account thus:—

1. *Credit, by Cash, to B, January 1.—Account of Capital Sale* (cash or credit) of the entire product of his year's labor to A, proprietor-capitalist-contractor .....1,000 francs.

In exchange for his product, then, the laborer receives one thousand francs, a sum equal to that which appears in the second article of the preceding chapter, *Account of general merchandise*.

But B lives on his wages,—that is, with the money given him by A, proprietor-capitalist-contractor, he procures from said A all the articles needed for his (B's) consumption, articles which are invoiced to him, as we saw above, in the third article of the first chapter, at an advance of ten per cent on the cost price. With respect to B, then, the operation would result as follows:—

2. *Due from B, Account of Capital, to A, Proprietor-Capitalist-Contractor*

Total provisions of all kinds received from the latter during the year.....1,100 francs.

3. *Summary of B's Operations for his Inventory.*

Dr.	ACCOUNT OF CAPITAL	Cr.
1,100 francs.	Debit of this account to December 31. Credit of this account to December 31.....1,000 francs. Loss on this account, which B can pay only by borrowing ..... 100 "	1,100 francs.
1,100 francs.		1,100 francs.

All the other laborers being in the same circumstances as B, their accounts show, each, the same result. The reproduction of each of these accounts is not necessary to a clear comprehension of the fact which I desire to bring out,—namely, the absence of equilibrium in general circulation in consequence of the exactions of capital.

The foregoing table, quite differently instructive and conclusive from that of Quesnay, is a faithful picture, presented algebraically, of the existing social economy. From it we may be convinced that poverty and the proletariat are not the effects of accidental causes only, such as floods, wars, and epidemics, but that they spring also from an organic cause, inherent in the constitution of society.

From the fiction of the productivity of capital and the numberless prerogatives which the monopolist arrogates to himself there results always and of necessity one of these two things:—

First, the monopolist takes from the wage-laborer a portion of his social capital. B, C, D, E, F, G, H, I, K and L have produced during the year ten, and have consumed only nine. In other words, the capitalist has eaten up one laborer. Further, the interest being used as new capital, the situation of the laborers grows worse and worse year by year; so that if we

push the argument to its logical extremity, we shall find that, towards the seventh year, the entire original investment of the laborers will have passed, in the name of interest and profit, into the hands of the proprietor-capitalist-contractor, showing that the wage-laborers, in order to pay their debts, must work every seventh year for nothing.

Or, second, the laborer, being unable to pay a price for his product larger than that which he has himself received, compels the monopolist to lower his prices, and consequently to disgorge the whole amount of interest, rent, and profit which the exercise of his right of property entitled and obliged him to take.

We are compelled, then, to admit that credit, under the system of interest, inevitably results in the spoliation of the laborer, and, as a corrective no less inevitable, in the bankruptcy of the contractor, the ruin of the capitalist-proprietor. Interest is like a two-edged sword: whichever way it strikes, it kills.

I have just shown you what the condition of things is under the régime of interest. Let us now see what it would be under the régime of gratuity.

## 2.—*System of Gratuity.*

According to the theory of gratuitous credit the positions of wage-laborer and proprietor-capitalist-contractor are identical and equivalent; both are included in that of *producer-consumer*. The effect of this change is to reduce all the present operations of credit—loans, sales on time, speculations, rent, farm-rent, etc.—to the simple form of exchange; likewise all banking operations to a simple transfer of debts.

Suppose, then, the Bank of France, the principal instrument of this system, reorganized on the basis of gratuitous credit, and its rate of discount reduced to one per cent,—a rate which, for the time being, we will regard as the just reward of the special service rendered by the bank, and consequently as representing an interest equal to zero. Let us see what

changes this will make in the accounts. Henceforth the exchanges will be effected through the intervention of the bank and its auxiliaries, superseding all the various forms of usurious credit; it is, then, with the bank that B, C, D, etc., laborers, whether associated, grouped, free, deal directly and immediately.

Chapter One

*Account of the Operations of B, Laborer, with X, the National Bank*

1. *Credit by Cash, January 1, to X, the National Bank*

Amount advanced by the latter upon all the products of my year's labor, to be repaid as fast as my sales warrant, 1,000 francs, less 1 per cent. discount.....990 francs

As we have already seen, B lives exclusively by his labor; that is to say, by guaranteeing his product to X, the National Bank, he receives in return either bank-notes or specie, with which he buys of A—a laborer like himself, but who, in the sales or exchanges of which we are about to speak, plays the part of proprietor-capitalist-contractor—all the articles needed in his business and for his consumption. In fact, B pays cash for all these articles, and therefore is able to make a better bargain.

These purchases, made with the bills or coin of the bank, cause the following account to be opened upon B's books:—

2. *Credit, by General Merchandise, to Cash*

Amount of ready money paid A for my year's consumption .....990 francs

B sells his products as fast as he manufactures them. But production depends upon consumption; now, the latter being

no longer embarrassed, as it was under the régime of interest, by usury,—that is, by credit sales, by the loan of tools and the charges which result therefrom, and especially by the preference for specie, which now has become barren and even useless,—it follows that B, as well as all other laborers, cannot only repurchase his own product, less a small fraction, but can give full scope to his energies and productive powers without fear of creating non-vendible products or lowering prices but, on the contrary, with the well-founded hope of compensating himself by this increased production and exchange, for the small reward which he pays to the bank for negotiating his values. This will be made to appear in the next article of B's account.

All labor should leave an excess: this is a cardinal doctrine of political economy. It is founded upon the principle that, in the economic order, whatever be the capital employed, *all value is created by labor from nothing*; just as, according to Christian theology, everything in nature was created by God, likewise from nothing. In fact, product being defined by J. B. Say and all the economists as the *utility added by labor to objects furnished by nature*, it is clear that all product is the result of the laborer's effort; and if the object to which this new utility is added is already itself a product, the value reproduced must of necessity be greater than the value consumed. Let us suppose that by his labor B adds ten per cent to the value which he consumes, and state the result in his books:—

### 3. *Credit, by Cash, to General Merchandise*

My cash sales to various persons for the current	
year.....	1,089 francs

This account shows that usury is a cause of poverty, in that it hinders consumption and reproduction, first by raising the market price of products to a higher point than is warranted by the increased value obtained by reproductive labor



(the whole amount of usury in France on a total product of ten thousand millions, is six thousand millions, or sixty per cent), and then by embarrassing circulation by the various formalities of discount, interest, rent, farm-rent, etc., etc.,—difficulties which disappear entirely under the régime of gratuitous credit.

We now have reached the time when B has realized the entire products of his year's labor. He must therefore settle with X, the National Bank,—an operation which is represented as follows:—

4. *Credit, by X, the National Bank, to Cash*

My deposit in settlement.....1,000 francs

Now B must balance his account; he does it in the following way:—

5. *Summary of B's Operations for his Inventory*

Dr.	GENERAL MERCHANDISE ACCOUNT	Cr.
990 francs. Debit of this account to Dec. 31 99 francs. Profits on this account <hr style="width: 100%;"/> 1,089 francs	Credit of this ac- count to Dec. 31.....1,089 francs <hr style="width: 100%;"/> Balance.....1,089 francs	

The following year B, instead of operating with a product worth one thousand francs, will operate with a product worth one thousand and eighty-nine francs, which will give him a new increase of profit; then the same thing occurring in the third, fourth, fifth, etc., years, the progress of his wealth will keep pace with the progress of his labor, and so he will go on forever.

The other laborers, C, D, E, F, etc., being in the same circumstances as B, their accounts show each the same result; it is useless to reproduce them.

I now pass to the counterpart of the accounts opened by B, and first to that of the bank.

## Chapter Two

We have seen above that X, the National Bank, made an advance to B upon his labor or product; that it did the same for all the other laborers; and that subsequently it was remunerated and made whole by the redemption of the values deposited with it and by the discount of one per cent in its favor. This is the way in which these various operations would be represented on the books of the bank:—

### 1. *Credit, by the following Laborers, to Cash*

B,	the bank's advances on the product of				
	his year's labor, secured by his note for				
	1,000 francs, discount deducted.....			990	francs
C,	"	"	"	990	"
D,	"	"	"	990	"
E,	"	"	"	990	"
F,	"	"	"	990	"
G,	"	"	"	990	"
H,	"	"	"	990	"
I,	"	"	"	990	"
K,	"	"	"	990	"
L,	"	"	"	990	"
				<hr/>	
				9,900 francs	

Then from the redemption by the debtors arises a new operation, which the accountant enters upon his books as follows:—

2. *Credit, by Cash, to the Following Laborers*

To B, his deposit in settlement.....	990 francs
“ C, “ “ “ .....	990 “
“ D, “ “ “ .....	990 “
“ E, “ “ “ .....	990 “
“ F, “ “ “ .....	990 “
“ G, “ “ “ .....	990 “
“ H, “ “ “ .....	990 “
“ I, “ “ “ .....	990 “
“ K, “ “ “ .....	990 “
“ L, “ “ “ .....	990 “
“ profits and losses, received from the aforesaid laborers in the form of a discount of one per cent.....	100 “
<hr/>	
Total.....	10,000 francs

The credit given by X, the National Bank, after the conversion into products of the sum credited after the sale of these products to all the members of the society, producer-consumers, from A to L, and finally after the settlement of this sale by means of a sum equal to that furnished by the bank,—this credit, we say, returns to it in the form of notes or coin, increased by a discount of one per cent, with which the bank pays its employees and defrays its expenses. If, after having covered its expenses, there still remains to the bank a net profit, be it larger or smaller, it should reduce its rate of discount proportionally, so that the interest of capital received by the bank may always be zero.

3. *Summary of the Operations of X, the National Bank, for Its Inventory of Dec. 31*

Dr.	PROFIT AND LOSS	Cr.
100 francs. Profit on this account	Product of the year's discounts..	100 francs

Going back to the *cash* account of X, the National Bank, we see immediately that the excess of debit over credit is one hundred francs, a sum equal to that which appears in the *profit and loss* account as the discount profit.

### Chapter Three

We come finally to the account of A, proprietor-capitalist-contractor, who in no wise differs, as we have said already, from B, C, D, etc., wage-laborers, and who assumes this title only fictitiously, in consequence of his transactions with the latter class.

Under the régime of gratuitous credit, A no longer lends his raw material, his tools, his capital, in a word; neither does he give them away; he sells them. When he has received the price he is stripped of his right over his capital; he can no longer compel the payment of interest upon it through all eternity and beyond.

Let us see, then, how A's account will appear under this new system.

First, specie being only a medium of exchange, and having become, by its accumulation in the bank and the almost universal substitution of paper for gold, common property, the use of which, being universally disdained, is gratuitous, the producer-consumers, B, C, D, etc., have no more need of A's coins. What they need are the raw materials, tools, and provisions of which A is the possessor.

A begins business, then, with his *merchandise* capital, which by hypothesis we will fix at ten thousand francs. This commencement of operations is expressed on A's books in the following manner:—

#### 1. *Credit, by General Merchandise, to A, Account of Capital*

Stock in hand on the 1st of January last, according to inventory.....10,000 francs

What does A do with this merchandise? He sells it to the laborers, B, C, D, etc.,—that is, to the society of consumers and producers which they here represent just as he, A, represents, for the time being, the society of capitalists and proprietors. A's accountant will exhibit this as follows:—

2. *Credit, by Cash, to General Merchandise*

Cash sale to B.....	990 francs
“ C.....	990 “
“ D.....	990 “
“ E.....	990 “
“ F.....	990 “
“ G.....	990 “
“ H.....	990 “
“ I.....	990 “
“ K.....	990 “
“ L.....	990 “
	<hr/>
Total.....	9,990 francs

But if the laborers, B, C, D, etc., consume A's goods, the proprietor-capitalist-contractor A, in his turn consumes the products of the laborers B, C, D, etc., of whom he must buy them, as they themselves buy his. Now we have seen, in the third article of the first chapter, that the increased value given to the goods consumed by B, C, D, etc., being, by hypothesis and under a system free from all dullness, stagnation, and falling of prices, ten per cent, the capital of nine hundred and ninety francs which B has obtained from the bank on credit, on being reproductively consumed, is changed into another of one thousand and eighty-nine francs: the latter, then, is the price at which A makes his purchases of B and settles the bills. Which is entered on the books as follows:—

3. *Credit, by General Merchandise, to Cash*

Cash purchases from the following laborers:

From B, his deliveries of various articles for my consumption.....	1,089	francs
C, " .....	1,089	"
D, " .....	1,089	"
E, " .....	1,089	"
F, " .....	1,089	"
G, " .....	1,089	"
H, " .....	1,089	"
I, " .....	1,089	"
K, " .....	1,089	"
L, " .....	1,089	"
<hr/>		
Total.....	10,890	francs

To finish the demonstration we have only to draw up A's inventory.

*Summary of the Operations of A, Proprietor-Capitalist-Contractor, for His Inventory of December 31*

Dr.	GENERAL MERCHANDISE	Cr.
10,890 francs.	Debit of this account to Dec. 31	
	Credit of this account to December 31 .....	9,900 francs
	Amount of merchandise remaining on hand from the inventory of the first of January last....	100 "
	Loss on this account .....	890 "
	<hr/>	
<hr/>		Balance....10,890 "

Now that we have made up both accounts, let us compare them and note the differences.

1. Under the *régime of usury* the account of each laborer is balanced by a loss of one hundred francs, or for the ten, one thousand francs.

At the same time that of A, proprietor-capitalist-contractor, is balanced by a profit of one thousand francs; which proves that the want and misery existing in a capitalistic society are due to interest.

2. Under the *régime of gratuitous credit*, on the contrary, the account of each laborer is balanced by a *bonus* of ninety-nine francs, or for the ten, nine hundred and ninety francs; and that of A, proprietor-capitalist, by a deficit of eight hundred and ninety francs, which with the hundred francs' worth of merchandise remaining on hand and helping to account for the year's deficit, make up the nine hundred and ninety francs by which the wealth of the ten laborers has been increased. Which proves that in a mutualistic society,—that is, a society in which there is equality in exchange,—the wealth of the laborer increases directly with his labor, while that of the capitalist diminishes directly with his unproductive consumption, and which demolishes Pierre Leroux's criticism upon me, which he has not ceased to reiterate in all his discussions for the last two months, to wit, that gratuitous credit, the bank of the people, and mutuality are as much *proprietorship*, *bourgeoisisme*, and even exploitation as the system which the bank of the people pretends to abolish.

*Under the mutualistic system the wealth of the laborer increases directly with his labor, while that of the proprietor-capitalist diminishes directly with his unproductive consumption*,—this proposition, mathematically demonstrated, answers all the incoherencies of Pierre Leroux and Louis Blanc concerning communism, fraternity, and solidarity.

Let us now reverse the formula.

*Under the usurious system the wealth of the laborer diminishes directly with his labor, while that of the proprietor-capitalist increases directly with his unproductive consumption*

tion,—this proposition, mathematically demonstrated like the preceding one, answers all the incoherencies concerning the inequality of capacities, the compensations of another life, etc., etc. As a corollary to the foregoing, and still basing ourselves upon the logic of figures, we say further:—

In a capitalistic society the laborer, never being able to repurchase his product at the price at which he sells it, is constantly running behind, which compels him to continually decrease its production: whereby life is forbidden and the supply of capital and even of the means of subsistence is cut off.

In a mutualistic society, on the contrary, the laborer, exchanging without reserve product for product and value for value, paying only a trifling discount which is amply recompensed by the surplus which his labor leaves him at the end of the year, alone profits by his products: whereby he is enabled to produce a limitless amount, and society to increase to an indefinite extent its life and wealth.

Do you say that such a revolution in economic relations would be, after all, only a transfer of misery; that, instead of the poverty of the wage-laborer, who cannot repurchase his own product, and who grows the poorer the more he works, we shall have the poverty of the proprietor-capitalist-contractor, who will be compelled to encroach upon his capital and thus to gradually destroy, not only the material of products, but machinery itself?

But who does not see that if, as is inevitable under the gratuitous system, the two functions of *wage-laborer* on the one hand, and of *proprietor-capitalist-contractor* on the other, become equal and inseparable in the person of every workingman, A's deficit as a capitalist is immediately covered by his profit as a laborer; so that, while on the one hand by the annihilation of interest the sum of the *products* of labor is increased indefinitely, on the other, by the facility of circulation these products are incessantly converted into *values* and the values into *capital*?

Let every one, then, instead of charging spoliation upon socialism, make out his own account; let every one make



an inventory of his wealth and his industry, of the amount which he gains as a capitalist-proprietor, and that which he can obtain as a laborer,—and either I am greatly mistaken, or else out of the ten million citizens enrolled upon the electoral lists there will not be found two hundred thousand—one in fifty—for whose interest it is to sustain the usurious system and oppose gratuitous credit. Once again, whoever gains more by his labor, his skill, his industry, and his knowledge than by his capital is directly and especially interested in the most immediate and complete abolition of usury; he, I say, whether he knows it or not, is pre-eminently a partisan of the *democratic and social republic*; he is, in the broadest and most conservative acceptance of the term, a *revolutionist*. What then? Must it be true, because Malthus, with a handful of pedants at his heels, has said so and has wished it to be so, that ten millions of laborers, with their wives and children, ought forever to support two hundred thousand parasites, and that it is in order to protect this exploitation of man by man that the State exists, that it makes use of an armed force of five hundred thousand soldiers and one million officeholders, and that we pay to it two thousand millions of taxes?

But why do I need, after all that has been said in the course of this discussion, to keep up longer this purely artificial distinction between *wage-laborers and capitalist-proprietors*? The time has come to put an end to all class antagonism, and to interest everybody, even the proprietors and capitalists themselves, in the abolition of rent and interest. The revolution, having assured its triumph through justice, may, without losing its dignity, address itself to personal interests.

Have we not seen that interest was born of industrial and commercial risks, that it originally appeared in the more or less speculative *contrats de pacotille* and *à la grosse*? Now, that which was at the beginning the inevitable effect of a state of war, and which must of necessity appear in an antagonistic society, will appear again and always in a harmonic and peaceful society. Progress, in industry as in science, is unlimited; labor knows no bounds to its bold enterprises.

But when we say enterprise, we always mean something more or less speculative, and consequently a greater or smaller risk of the capital employed, which necessitates a compensatory interest, a premium of insurance.

As a means for the action of capital under conditions more and more favorable, *sleeping-partnership* must take the place of rent, farm-rent, annuities, mortgages, mercantile speculation, stock-jobbing, and banking spoliation. Then capital, divided into shares and furnished by the laboring masses, instead of robbing labor, will produce for labor; then the dividend, substituted for interest, will be only a method of allowing society as a whole to share in the profits of private speculations; that will be the legitimate gain of genius over fortune. Let the capitalists of today, instead of crowding to the stock exchange opposing the revolution, and putting an embargo upon arms, dare to become our leaders: let them become, as in '92, our generals in this new war of labor against poverty, in the grand crusade of industry against nature. Is there, then, nothing more to discover, nothing more to dare, nothing more to do for the development of our nationality, for the increase of our wealth and glory?

#### NOTE

This discussion, notwithstanding the lapse of time, still goes on. It is admitted that what the borrower wants is capital, that is, capital goods—raw materials, machines, tools and the like—and, by the process of borrowing, ultimately gets them; but he does not get them from the person who makes the loan to him.

To illustrate this, suppose a farmer is in need of additional capital at the beginning of the year. He borrows the money of the banker and gives his promissory note therefor. This note is usually secured by a lien on, or by the pledge of, certain property. The farmer's solvency is not generally known, so his note cannot circulate. The bank's solvency, however, is well known, and its notes are received by everybody. The banker exchanges his well known credit for the

farmer's little known, but equally good, credit, and for this service, which is nothing more or less than making the farmer's credit generally known—advertising it, so to speak—the bank charges, let us say, seven per cent a year, which is about six per cent over and above the actual cost of conducting the bank. The element of risk, of course, also enters into the transaction, and a premium must be paid therefor; but where the security is ample this risk is small and its cost is correspondingly low.

Now, to follow the process a little further. With this money the farmer buys agricultural implements, seed, and fertilizer. These are all capital, but he does not *borrow* them from the people who deal in them, he *buys* them outright and pays for them, so the dealers do not expect and do not get any interest, but are glad to be “deprived” of their capital in this way. That is what they are in business for.

If now this dealer in agricultural implements in turn needs more capital he must also go to the bank and borrow money in the first place, and buy the goods from those who have them to sell, and so must the seed man and so must every other user of capital of every kind.

If interest is paid for the use of capital and not for credit, why is it that the persons engaged in production, one and all, who together have all the capital, must first go to the bank, which has no capital but only a certain kind of credit, and exchange credit with it before they can get capital from one another?

This question the advocates of mutual banking have often asked but it has never been answered.

Another proof that interest is not paid for the use of capital is that the rapid increase of capital that has taken place since the time of this debate has not affected the interest rate.

From 1850 to 1910 the population of the United States quadrupled in number, and the amount of capital increased fifteen-fold. The average purchasing power of a dollar was as great in 1910 as it was in 1850, so there was really a four-

fold per capita increase of capital. If, then, interest must be paid because capital is scarce and is hard to accumulate and must be "saved," as it becomes more plentiful there should be a tendency, at least, no matter how slight, toward a lower rate of interest for the use of capital; but no such tendency can be seen. Interest was as high in 1910 as it was sixty years before. (Editor.)

MUTUAL BANKING

BY WILLIAM B. GREENE



## INTRODUCTORY NOTE

WILLIAM B. GREEN (1797-1877) was a prominent figure among the Massachusetts idealists during the middle of the nineteenth century. Colonel T. W. Higginson, a contemporary, describes him as "a young man who seemed to me the very handsomest and most distinguished looking person I had ever seen; nor could any one ever separate this picturesque aspect from his personality. . . . He was more than six feet high, slender, somewhat high-shouldered, but with an erectness brought from West Point, where he had been a cadet though not a graduate. He had served in the Indian wars in Florida, and his whole bearing was military and defiantly self-assertive. He had a mass of jet black hair, and eyes that transfixed you with their blackness and penetration.

"Greene married a Miss Shaw, one of the most admired belles of Boston, a woman as fair as he was dark, nearly as tall as himself, quite as distinguished in appearance. . . .

"Greene became a Unitarian preacher and retired to a small country parish. He was a member of the Massachusetts Constitutional Convention of 1853; later he left the ministry and went to Paris until the Civil War recalled him. Offering his services to Governor Andrew, he was made colonel of the First Massachusetts Heavy Artillery."

This regiment gave a good account of itself during the war. For a time it was stationed at the Long Bridge over the Potomac, guarding the city of Washington against threatened Confederate attacks.

Greene was the president of the New England Labor Reform League, of which E. H. Heywood was secretary, and he was also active in the work of the French section of the International Workmen's Association.

In 1849 he wrote a series of newspaper articles, which were afterwards published as a pamphlet under the name of *Mutual Banking*. They have been pronounced "the best exposition of finance ever written in the English language." In the following pages this pamphlet appears somewhat reduced; some repetitions and quotations are omitted and new titles are given to two of the chapters. The reader is cautioned that Greene's use of the word "usury" designates not only the excess of interest above the rate permitted by law, but all interest whatsoever.

When the last edition of Greene's *Mutual Banking* was printed in 1895, several plans of currency reform had just been proposed by the three political parties of that time, and in the preface the question was asked of the leaders of those parties (which other followers of Proudhon had asked before)—"Why is not the credit of a bank's customers as good a basis for currency as that of the bank itself?" This question has been partly answered by that provision of the Federal Reserve Act of 1913 by which Federal Reserve currency can be issued in exchange for the rediscounted notes of the customers of member banks. This is a distinct step forward, as it supplies the machinery for expanding mercantile credit directly, and gives rise to a hope that, before another edition appears, a move will be made to decrease the cost of this credit. (Editor.)



# MUTUAL BANKING

BY WILLIAM B. GREENE

## I

### VALUE

LET us first explain the difference between legal value and actual value.\* It is evident, that, if every bank-bill in the country should suddenly be destroyed, no actual value would be destroyed, except perhaps to the extent of the value of so much waste paper. The holders of the bills would lose their money, but the banks would gain the same amount, because they would no longer be liable to be called upon to redeem their bills in specie. Legal value is the legal claim which one man has upon property in the hands of another. No matter how much legal value you destroy, you cannot by that process banish a single dollar's worth of actual value, though you may do a great injustice to individuals. But if you destroy the silver dollars in the banks, you inflict a great loss on the community; for an importation of specie would have to be made to meet the exigencies of the currency, and this importation would have to be paid for in goods and commodities which are of actual value. When a ship goes down at sea with her cargo on board, so much actual value is lost. But, on the other hand, when an owner loses his ship in some unfortunate speculation, so that the ownership passes from his hands into the hands of some other person, there may be no loss of actual value, as in the case of shipwreck, for the loss may be a mere change of ownership.

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\* The reader is requested to notice this distinction between actual and legal value, as we shall have occasion to refer to it again.

The national debt of England exceeds \$4,000,000,000. If there were enough gold sovereigns in the world to pay this debt, and these sovereigns should be laid beside each other, touching each other, and in a straight line, the line thus formed would be much more than long enough to furnish a belt of gold extending around the earth. Yet all this debt is mere legal value. If all the obligations by which this debt is held were destroyed, the holders of the debt would become poorer by the amount of legal value destroyed; but those who are bound by the obligations (the tax-paying people of England) would gain to the same amount. Destroy all this legal value, and England would be as rich after the destruction as it was before; because no actual value would have been affected. The destruction of the legal value would merely cause a vast change in the ownership of property; making some classes richer, and, of course, others poorer to precisely the same extent; but if you should destroy actual value to the amount of this debt you would destroy about thirteen times as much actual value (machinery, houses, improvements, products, etc.) as exist at present in the state of Massachusetts. The sudden destruction of \$4,000,000,000 worth of actual value would turn the British Islands into a desert.

### *A Parasite City*

Suppose 5,000 men to own \$30,000 each; suppose these men to move, with their families, to some desolate place in the state, where there is no opportunity for the profitable pursuit of the occupations either of commerce, agriculture, or manufacturing. The united capital of these 5,000 men would be \$150,000,000. Suppose, now, this capital to be safely invested in different parts of the state; suppose these men to be, each of them, heads of families, comprising, on an average, five persons each this would give us, in all, 25,000 individuals. A servant to each family would give us 5,000 persons more, and these added to the above number would give us 30,000 in all. Suppose, now, that 5,000 mechanics—shoemakers, bakers, butchers, etc.—should settle with their

families in the neighborhood of these capitalists, in order to avail themselves of their custom. Allowing five to a family, as before, we have 25,000 to add to the above number. We have, therefore, in all, a city of 55,000 individuals, established in the most desolate part of the state. The people in the rest of the state would have to pay to the capitalists of this city six per cent on \$150,000,000 every year; for these capitalists have, by the supposition, this amount out at interest on bond and mortgage, or otherwise. The yearly interest on \$150,000,000, at six per cent, is \$9,000,000. These wealthy individuals may do no useful work whatever, and, nevertheless, they levy a tax of \$9,000,000 per annum on the industry of the state. The tax would be paid in this way. Some money would be brought to the new city, and much produce; the produce would be sold for money to the capitalists, and with the money thus obtained, added to the other, the debtors would pay the interest due. The capitalists would have their choice of the best the state produces, and the mechanics of the city, who receive money from the capitalists, the next choice. Now, how would all this be looked upon by the people of the commonwealth? There would be a general rejoicing over the excellent market for produce which had grown up in so unexpected a place, and the people would suppose the existence of this city of financial horse-leeches to be one of the main pillars of the prosperity of the state.

Each of these capitalists would receive yearly \$1,800, the interest on \$30,000, on which to live. Suppose he lives on \$900, the half of his income, and lays the other half by to portion off his children as they come to marriageable age, that they may start also with \$30,000 capital, even as he did. This \$900 which he lays by every year would have to be invested. The men of business, the men of talent, in the state, would see it well invested for him. Some intelligent man would discover that a new railroad, canal, or other public work was needed; he would survey the ground, draw a plan of the work, and make an estimate of the expenses; then he would go to this new city and interest the capitalists in the

matter. The capitalists would furnish money, the people of the state would furnish labor; the people would dig the dirt, hew the wood, and draw the water. The intelligent man who devised the plan would receive a salary for superintending the work, the people would receive day's wages, and the capitalists would own the whole; for did they not furnish the money that paid for the construction? Taking a scientific view of the matter, we may suppose the capitalists not to work at all; for the mere fact of their controlling the money would insure all the results. We suppose them, therefore, not to work at all; we suppose them to receive, each of them, \$1,800 a year; we suppose them to live on one-half of this, or \$900, and to lay up the other half for their children. We suppose new-married couples to spring up, in their proper season, out of these families, and that these new couples start, also, each with a capital of \$30,000. We ask now, is there no danger of this new city's absorbing unto itself the greater portion of the wealth of the state?

There is no city in this commonwealth that comes fully up to this ideal of a *fainéant* and parasite city; but there is no city in the state in which this ideal is not more or less completely embodied.

## II

### THE CURRENCY

Gold and silver are peculiarly adapted to act as a circulating medium. They are: 1. Admitted by common consent to serve for that purpose. 2. They contain within themselves actual intrinsic value, equivalent to the sum for which they circulate, as security against the withdrawal of this consent, or of the public estimation. 3. They lose less by the wear and tear and by the effect of time, than almost any other commodities; and, 4. They are divisible into all and any of the fractional parts into which value may be, or necessarily is, divided. There is no occasion to notice particularly in this

place the many other advantages possessed by the precious metals. But we must remember that when we exchange anything for specie we barter one commodity for another. By the adoption of a circulating medium we have facilitated barter, but we have not done away with it—we have not destroyed it. Specie is a valuable commodity and its adoption by society as a medium of exchange does not destroy its character as a purchasable and salable article. Let Peter own a horse; let James own a cow and a pig; let James's cow and pig, taken together, be worth precisely as much as Peter's horse; let Peter and James desire to make an exchange; now, what shall prevent them from making the exchange by direct barter? Again, let Peter own the horse; let James own the cow; and let John own the pig. Peter cannot exchange his horse for the cow, because he would lose by the transaction; neither—and for the same reason—can he exchange it for the pig. The division of the horse would result in the destruction of its value. The hide, it is true, possesses an intrinsic value; and a dead horse makes excellent manure for a grapevine; nevertheless, the division of a horse results in the destruction of its value as a living animal. But if Peter barter his horse with Paul for an equivalent in wheat, what shall prevent him from so dividing his wheat as to qualify himself to offer to James an equivalent for his cow and to John an equivalent for his pig? If Peter trades thus with James and John the transaction is still barter, though the wheat serves as currency and obviates the difficulty in making change. Now, if Paul has gold and silver to dispose of instead of wheat, the gold and silver are still commodities possessing intrinsic value, and every exchange which Paul makes of these for other commodities is always a transaction in barter. There is a great deal of mystification connected with the subject of the currency; but if we remember that, when we sell anything for specie, *we buy* the specie, and that when we buy anything with specie, *we sell* the specie—our ideas will grow wonderfully clear.

*The Disadvantages of a Specie Currency*

The governments of the different nations have made gold and silver a legal tender in the payment of debts. Does this legislation change the nature of the transactions where gold and silver are exchanged for other desirable commodities? Not at all. Does it transform the exchange into something other than barter? By no means. But the exchangeable value of any article depends upon its utility, and the difficulty of obtaining it. Now, the legislatures, by making the precious metals a legal tender, enhance their utility in a remarkable manner. It is not their absolute utility, indeed, that is enhanced, but their relative utility in the transactions of trade. As soon as gold and silver are adopted as the legal tender, they are invested with an altogether new utility. By means of this new utility, whoever monopolizes the gold and silver of any country—and the currency, as we shall soon discover, is more easily monopolized than any other commodity—obtains control thenceforth over the business of that country; for no man can pay his debts without the permission of the party who monopolizes the article of legal tender. Thus, since the courts recognize nothing as money in the payment of debts except the article of legal tender, this party is enabled to levy a tax on all transactions except such as take place without the intervention of credit.

When a man is obliged to barter his commodity for money, in order to have money to barter for such other commodities as he may desire, he at once becomes subject to the impositions which moneyed men know how to practice on one who wants and must have money for the commodity he offers for sale. When a man is called upon suddenly to raise money to pay a debt, the case is still harder. Men whose property far exceeds the amount of their debts in value—men who have much more owing to them than they owe to others—are daily distressed for the want of money; for the want of that intervening medium, which, even when it is obtained in sufficient

quantity for the present purposes, acts only as a mere instrument of exchange.

By adopting the precious metals as the legal tender in the payment of debts, society confers a new value upon them, which new value is not inherent in the metals themselves. This new value becomes a marketable commodity. Thus gold and silver become a marketable commodity as (*quoad*) a *medium of exchange*. This ought not so to be. This new value has no natural measure, because it is not a natural, but a social value. This new social value is inestimable, it is incommensurable with any other known value whatever. Thus money, instead of retaining its proper relative position, becomes a superior species of commodity—superior not in degree, but in kind. Thus money becomes the absolute king and the demigod of commodities.\* Hence follow great social and political evils. The medium of exchange was not established for the purpose of creating a new, inestimable, marketable commodity, but for the single end or purpose of facilitating exchanges. Society established gold and silver as an instrument to mediate between marketable commodities; but what new instrument shall it create to mediate between the old marketable commodities, and the new commodity which it has itself called into being? And if it succeed in creating such new instrument, what mediator can it find for this new instrument itself, etc.? Here the gulf yawns! No bridge save that of *usury* has been thrown, as yet, over this gulf. Our exposition is evidently on the brink of the infinite series; we are marching rapidly forward to the abyss of absurdity. The logicians know well what the sudden appearance of the infinite series in an investigation signifies; it signifies the recognition of a phenomenon and the assigning to it of a mere concomitant, to stand to it in the place of cause. The phenomenon we here recognize is circulation or exchange, and we ignore its cause, for we endeavor to account for it by the

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\* Money is merchandise just like any other merchandise, precisely as the *trump* is a card just like any other card.

movement of specie; which movement is neither circulation nor the cause of circulation. But more of this hereafter. Let us return to the subject with which we are more immediately concerned; noting, meanwhile, that a specie currency is an absurdity.

*The Evils of a Specie Currency—Usury*

Society established gold and silver as a circulating medium, in order that exchanges of commodities might be *facilitated*; but society made a mistake in so doing; for by this very act it gave to a certain class of men the power of saying what exchanges shall, and what exchanges shall not, be *facilitated* by means of this very circulating medium. The monopolizers of the precious metals have an undue power over the community; they can say whether money shall, or shall not, be permitted to exercise its legitimate functions. These men have a *veto* on the action of money, and therefore on exchanges of commodity; and they will not take off their *veto* until they have received usury, or, as it is more politely termed, interest on their money. Here is the great objection to the present currency. Behold the manner in which the absurdity inherent in a specie currency—or, what is still worse, in a currency of paper based upon specie—manifests itself in actual operation! The mediating value which society hoped would facilitate exchanges becomes an absolute marketable commodity, itself transcending all reach of mediation. The great natural difficulty which originally stood in the way of exchanges is now the private property of a class, and this class cultivates this difficulty, and make money out of it, even as a farmer cultivates his farm and makes money by his labor. But there is a difference between the farmer and the usurer; for the farmer benefits the community as well as himself, while every dollar made by the usurer is a dollar taken from the pocket of some other individual, since the usurer cultivates nothing but an actual obstruction.

You cannot monopolize corn, iron and other commodities as you can money, for to do so you would be obliged to stipu-



late in your sales that payment shall be made to you in those commodities. What a commotion would exist in the community if a company of capitalists should attempt permanently to monopolize all the corn! But money, by the nature of the case, *since it is the only legal tender*, is *always* monopolized. This fact is the foundation of the right of society to limit the rate of interest.

We conclude, therefore, that gold and silver do not furnish a perfect medium of circulation; that they do not furnish facilities for the exchange of *all* commodities. Gold and silver have a value as *money*; a value which is artificial, and created *unintentionally* by the act of society establishing the precious metals as a legal tender. This new artificial value overrides all intrinsic actual values, and suffers no mediation between itself and them. Now, money, so far forth as it is mere money, ought to have *no value*; and the objection to the use of the precious metals as currency is that, as soon as they are adopted by society as a legal tender, there is superadded to their natural value this new, artificial and unnatural value. Gold and silver cannot facilitate the purchase of this new value which is added to themselves; "a mediator is not a mediator of one." *Usury* is the characteristic fact of the present system of civilization; and usury depends for its existence upon this super-added, social, unnatural value, which is given artificially to the material of the circulating medium. Destroy the value of this material *as money* (not its utility or availability in exchange) and you destroy the possibility of usury. Can this be done so long as this material is gold or silver? No.

Whatever is adopted as the medium of exchange should be free from the above-named objections. It should serve the purpose of facilitating *all* exchanges; it should have no value *as money*; it should be of such a nature as to permit nothing marketable, nothing that can be bought or sold, to transcend the sphere of its mediation. It should exist in such quantity as to effect all exchanges which may be desirable. It should be co-existent in time and place with such property

as is destined for the market. It should be sufficiently abundant and easy of acquirement to answer all the legitimate purposes of money. It should be capable of being expanded to any extent that may be demanded by the wants of the community; for if the currency be not sufficiently abundant it retards instead of facilitating exchanges. On the other hand, this medium of exchange should be sufficiently difficult of acquirement to keep it within just limits.

Can a currency be devised which shall fulfill all these conditions? Can a currency be adopted which shall keep money always just plenty enough, without suffering it ever to become too plenty? Can such a currency be established on a firm, scientific foundation, so that we may know beforehand that it will work well from the very first moment of its establishment? Can a species of money be found which shall possess *every* quality which it is desirable that money should have, while it possesses *no* quality which it is desirable that money should not have? To all these questions we answer, emphatically, *Yes!*

### III

#### THE CURRENCY: ITS EVILS AND THEIR REMEDY

*Bank-bills* are doubly guaranteed. On one side there is the capital of the bank, which is liable for the redemption of the bills in circulation; on the other side are the notes of the debtors of the bank, which notes are (or ought to be, if the bank officers exercise due caution and discretion) a sufficient guaranty for all the bills; for no bills are issued by any bank, except upon notes whereby some responsible person is bound to restore to the bank, after a certain lapse of time, money to the amount borne on the face of the bills. If the notes given by the receivers of the bills are good, then the bills themselves are also good. If we reflect a moment upon these facts, we shall see that a bank of discount and circulation is in reality, two banks in one. There is one bank which does

business on the specie capital really paid in; there is another and a very different bank, which does business by issuing bills in exchange for notes whereby the receivers of the bills give security that there shall be paid back, by a certain time, money to the amount of the bills issued. Let us now investigate the nature of these two different banks.

### *The Business of Banking*

Peter goes into the banking business with one dollar capital, and immediately issues bills to the amount of one dollar and twenty-five cents. Let us say that he issues five bills, each of which is to circulate for the amount of twenty-five cents. James comes to the bank with four of Peter's bills, and says: "Here are four of your new twenty-five cent notes which purport to be payable on demand, and I will thank you to give me a silver dollar for them." Peter redeems the bills and in so doing pays out his whole capital. Afterward comes John, with the fifth note, and makes a demand similar to that lately made by James. Peter answers, slowly and hesitatingly: "I regret—exceedingly—the force of present circumstances; but—I—just paid—out my whole capital—to James. I am—under—the painful necessity—of requesting you—to wait a little longer for your money." John at once becomes indignant and says: "Your bills state on their face that you will pay twenty-five cents upon each one of them whenever they are presented. I present one *now*. Give me the money, therefore, without more words, for my business is urgent this morning." Peter answers: "I shall be in a condition to redeem my bills by the day after tomorrow; but for the meanwhile, my regard for the interest of the public forces me unwillingly to suspend specie payments." "Suspend *specie* payments!" says John. "What other kind of payment, under Heaven, could you suspend? You agree to pay *specie*; for specie is the only legal tender and when you don't pay that, you don't pay anything. When you don't pay that *you break*. Why don't you own up at once? But while I am about it I will give you a piece of my mind; this extra note

which you have issued beyond your capital is a vain phantom, a hollow humbug and a fraud. And as for your bank, you would better take in your sign; for you have broken." "These be very bitter words," as said the hostess of the Boar's Head Tavern at Eastcheap.

John is right. Peter's capital is all gone and the note for twenty-five cents, which professes to represent specie in Peter's vaults, represent the tangibility of an empty vision, the shadow of a vacuum. But which bank is it that is broken? Is it the bank that does business on a specie capital, or the bank which does business on the notes of the debtors to the bank? Evidently it is the bank that does business on the specie capital that is broken; it is the specie-paying bank that has ceased to exist.

John understands this very well notwithstanding his violent language a moment since, he knows that his is the only bill which Peter has in circulation, and that Peter owes, consequently, only twenty-five cents; he knows also that the bank has owing to it one dollar and twenty-five cents. Peter owes twenty-five cents and has owing to him a dollar and twenty-five cents. John feels, therefore, perfectly safe. What is John's security? Is it the specie capital? Not at all. James has taken the whole of that. He has for his security the debts which are owing to the bank. Peter's bank begins now to be placed in a sound, philosophical condition. At first he promised to pay one dollar and twenty-five cents in specie, while he actually possessed only one dollar with which to meet the demands that might be made upon him. How could he have made a more unreasonable promise, even if he had tried? Now that he has suspended specie payments, he has escaped from the unphilosophical situation in which he so rashly placed himself. Peter's bank is still in operation—it is by no means broken; his bills are good, guaranteed, and worthy of considerable confidence; only his bank is now a simple and not a complex bank, being no longer two banks in one, for the specie-paying element has vanished in infinite darkness.

*Currency*

And here we may notice that Peter has solved, after a rough manner indeed, one of the most difficult questions in political economy. His bill for twenty-five cents is *currency*, and yet it is not based upon specie, nor directly connected in any way with specie. We would request the reader to be patient with us and not make up his mind in regard to our statements until he has read to the end of the chapter; it shall not be very long. Light breaks on us here, which we would endeavor to impart to the reader. The security for the bill is legal value, the security in actual value having been carried away by James—that is, the security for the bill is the legal claim which the bank has upon the property of its debtors. We see, therefore, that *legal value* may be made a basis for the issue of notes to serve as currency; we see, therefore, the faint indication of a means whereby we may perhaps emancipate ourselves from the bondage of hard money, and the worse bondage of paper which pretends to be a representative of hard money.

Let the reader not be alarmed. We abominate banks that suspend specie payment as much as he does. The run of our argument leads us through this desolate valley; but we shall soon emerge into the clear day.

We may notice in considering a bank that has suspended specie payments: 1. The *bank officers*, who are servants of the *stockholders*; 2. The *bills* which are issued by the bank officers, and which circulate in the community as money; and 3. The *notes* of the debtors of the bank, binding these debtors, which notes, deposited in the safe, are security for the bills issued. Let us now take for illustration, a non-specie-paying bank that shall be “perfect after its kind;” that is a bank whose capital shall be, in *actual* value, literally=0. Suppose there are 100 stockholders; suppose \$100,000 worth of bills to be in circulation and that \$100,000 *legal* value is secured to the bank by notes given by the bank’s debtors. These stockholders will be remarkable individuals, doing busi-

ness after a very singular fashion. For example: The stockholders own stock in this bank; but as the whole joint stock equals zero, each stockholder evidently owns only the one-hundredth part of nothing—a species of property that counts much or little, according to the skillfulness with which it is administered. The stockholders, through the agency of the bank officers, issue their paper, *bearing no interest*; exchanging it for other paper, furnished by those who receive the bills, *bearing interest at the rate of six per cent per annum*. The paper received by the bank binds the debtor to the bank to pay interest; while the paper issued by the bank puts it under no obligation to pay any interest at all. Thus the stockholders doing business with no capital whatever, make six per cent per annum on a pretended \$100,000 of *actual* value which does not exist! Yet, meanwhile, these stockholders furnish the community with an available currency. This fact ought always to be borne in mind. Non-specie-paying banks, of course, make dividends. During the suspension of 1837 and 1838, all the banks of Pennsylvania made dividends, although it was prohibited in the charters of most of them. After the suspension which took place in Philadelphia in October, 1839, most of the banks of that city resolved not to declare dividends until the pleasure of the legislature could be known. By an act authorizing the continuance of the suspension until the 15th of January, 1841, permission was granted to make dividends, contrary to every principle of justice and equity. We do not know why we speak especially of the Pennsylvania banks in this connection; as we have yet to hear of the first bank, either in Pennsylvania or in any other State, that has had the delicacy to suspend the declaration of dividends merely because it suspended specie payments.

### *The Mutual Bank*

Our non-specie-paying bank being in the interesting position described, let us inquire whether it is not in the process of bringing forth something which shall be entirely different

from itself. We ask first, why a non-specie-paying bank should be permitted to make dividends. Its bills are perfectly good, whether the bank have any capital or not, provided the officers exercise due discretion in discounting notes; and it is evident that the stockholders have no right to ask to be paid for the use of their capital, since the capital in question ought to be specie, which they confess, by suspending specie payments, that they do not furnish. But if no dividends are to be declared, what are we to do with the immense amount of interest-money that will accumulate in the bank. Our answer to this question is so simple that we are almost ashamed to state it. Justice requires that all the interest-money accumulated—so much only excepted as is required to pay the expenses of the institution and the average of loss by bad debts—should be paid back to the borrowers in the proportion of the business which they have individually done with the bank. But since it would be by no means easy, practically, to thus pay the extra interest-money back, it would be better for the bank to turn the difficulty by lending its money at precisely that rate of interest and no more, say one per cent per annum, which would suffice to pay the expenses of the institution, including the average loss by bad debts. A bank of this character would be a *Mutual Bank*. This is not the institution we advocate and of which we propose to submit a plan to the reader; but it will serve in this place for the purposes of illustration. A bank that suspends specie payments may present two evident advantages to the community—first, it may furnish a currency; second, it may loan out its bills at one per cent interest per annum. That such a bank may furnish currency is proved by abundant experience, for suspending banks go right on with their business, and that their money circulates well is proved by the fact that such banks have hitherto seldom failed to declare good dividends. That they may loan their money at one per cent interest per annum is shown by the fact that the old banks do not pay more than one per cent per annum for their expenses, including losses by bad debts, and that the guaranty of the new bills consists

in the excellence of the notes furnished by the borrower, so that, if there is anything to be paid for this guaranty, it ought to be paid to the borrower himself, and not to any other person. We will not prolong this exposition, since a multiplicity of words would serve only to darken the subject. We invite the reader to reflect for himself upon the matter and to form his own conclusions. We repeat that we do not advocate a bank of the nature here described, since we conceive that such an institution would be eminently unsafe and dangerous, and for a hundred reasons among which may be counted the inordinate power that would be conferred on the bank's officers; but, as we said before, it may serve for illustration. Neither do we propose this plan as a theoretical solution of the difficulties noticed in the preceding chapters as inseparable from the existing currency. We reserve our own plan, and shall submit it to the reader in Chapter V.

#### IV

##### MUTUAL CREDIT

In the title-page of a book on *Money and Banking*,\* published at Cincinnati, the name of William Beck appears, not as author, but as publisher; yet there is internal evidence in the book sufficient to prove that Mr. Beck is the author.

##### *Mr. Beck's Bank*

Mr. Beck's plan for a Mutual Bank consists in a simple generalization of the system of credit in account that is well described in the following extract from J. Stuart Mill's *Political Economy*:

"A mode of making credit answer the purposes of money, by which, when carried far enough, money may be very completely superseded, consists in making payments by checks.

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\* *Money and Banking, or Their Nature and Effects Considered; Together With a Plan for the Universal Diffusion of Their Legitimate Benefits Without Their Evils.* By a Citizen of Ohio. Cincinnati: Published by William Beck, 1839; 16mo, 212pp.



The custom of keeping the spare cash reserved for immediate use or against contingent demands, in the hands of a banker and making all payments, except small ones, by orders on bankers, is in this country spreading to a continually larger portion of the public. If the person making the payment and the person receiving it kept their money with the same banker, the payment would take place without any intervention of money, by the mere transfer of its amount in the banker's books from the credit of the payer to that of the receiver. If all persons in London kept their cash at the same banker's and made all their payments by means of checks, no money would be required or used for any transactions beginning and terminating in London. This ideal limit is almost attained in fact, so far as regards transactions between dealers. It is chiefly in the retail transactions between dealers and consumers, and in the payment of wages, that money or bank-notes now pass, and then only when the amounts are small."

"Money," says Mr. Beck, "follows in the track of claim. Its progress is the discharge and satisfaction of claim. The payment of money is effectually the discharge of the debtor; but it is not equally effectual in satisfaction of the creditor. Though it releases the debtor, it still leaves the creditor to seek the real object of his desire. It does not put him in possession of it, but of something which enables him to obtain it. He must exchange this money by purchase for the article he wants before that object is attained. In payment of debts, it passes from claimant to claimant, discharging and paying claims as it goes. Money follows claim; both continually revolving through all classes of society in repeated and perpetual circles, constantly returning to their several stations, drawn thither by operations of industry or business.

"In the possession of money every one has his turn. It comes to him in the shape of payment for his sales or his industry and passes from him in the shape of payment or expenditure, again to return at its proper time and on a proper occasion to serve the same purposes as before.

"Now, I contend that as the progress of money lies in a circular route, a certain system of account may be made to supply its place, where its track and extent can, in that circle, be included and distinguished.

"By a *circle*, I mean that range of society which includes the whole circulating movement of money, with the accompanying causes and effects of its progress; viz, claims, debts and payments; so that, if we wish to trace its path, every point of that path will be contained within it. Such is the great circle of society. This contains the whole body of debtors and the whole body of creditors. It contains all the debtors to the creditors and all the creditors to the debtors. All would be included in the jurisdiction of a power that by any possibility could preside over the whole. Creditors are sellers; debtors are buyers. But no man continually sells without sometimes buying, nor does any man continually buy without sometimes selling. The creditor who receives money from his debtor, again expends this money upon others, who thereby, in their turns, become creditors and receive their money back again. All these movements are within the range of the one circle of society. Now, it is evident that if an account were kept by a presiding power, the goods which any person receives, being of equal value, would pay for those which he had previously delivered; would replace him in his original assets and cancel the obligation to him without the aid of money. Hence, after the whole process, it would seem that the intermediate passage and return of money were superfluous. If the dealings are not directly backward and forward—that is, between one creditor and his debtor and back again from the same debtor to the same creditor—the effect will be the same; for as this whole circle includes every creditor, every debtor and in fact every individual in that society, so it contains every account to which the claims of any creditor would apply, and every account to which the same creditor would be indebted. The agency of the presiding power would render it *pro forma*, the representative to every creditor of his individual debtor; and to every debtor,

the representative of his individual creditor. It would form a common center for all claims by every creditor on his debtor. It would form the channel for the discharge of his debts and the receipt of his claims. It would show the state of his account with society, and the balance, if in his favor, would be available as so much cash.

"This is what is meant by a *circle*. Such is the great circle of society, the only one which is complete and perfect, and such are the advantages contained in it.

"Hence the plan I propose is adapted to this circle, to exhibit the revolving track of money within it; to contain the several points of its progress; and, at each of these points, to perform its duty and supply its place by the revolution of debits and credits in account, instead of the revolutions of the actual material money."

There are many practical processes by which the business-world make credit perform the functions of money, among which may be especially noticed—first, that by credit in account; and second, that by bills of exchange. Mr. Beck thought out a Mutual Bank by generalizing credit in account; Proudhon, by generalizing the bill of exchange.

### *Bills of Exchange*

Let it be supposed that there are ten shoe-manufacturers in Lynn, who sell their shoes to ten shopkeepers in Boston; let it be supposed, also, that there are ten wholesale grocers in Boston who furnish goods to ten retail grocers in Lynn. If the value of the shoes equals the value of the groceries, the ten retail grocers in Lynn would have no occasion to send money to Boston to pay their indebtedness to the wholesale grocers; neither would the ten shopkeepers in Boston have occasion to send money to Lynn to discharge their debt to the ten shoe manufacturers; for the Lynn retail grocers might pay the money to the Lynn shoe-manufacturers; these shoe-manufacturers writing to the Boston shopkeepers, who are their debtors, requesting them to pay the Boston wholesale grocers, who are the creditors of the Lynn retail grocers.

It is very possible that the transactions of all these persons with each other might be settled in this way without the transmission of any money either from Boston to Lynn, or from Lynn to Boston. The transfer of debts in the process here indicated gives rise to what are called, in mercantile language, drafts, or bills of exchange; though regular bills of exchange are seldom drawn in this country, except against foreign account. A bill of exchange reads generally somewhat as follows:

"To Mr. E. F. ——— days after sight, on this, my *first* bill of exchange (second and third of the same date and tenor not paid), pay to A, B., without further advice from me, ——— dollars, value received, and charge the same to account of your obedient servant, C. D."

This form evidently implies that the bill is made out in triplicates. The bill must also, of course, be dated. A *draft* is a bill of exchange drawn up with the omission of some of the solemnity and particularity of the regular bill.

Bills of exchange are useful not only for the payment of debts at distant places without transportation of the precious metals, but also as a means by which a debt due from one person may be made available for *obtaining credit* from another. It is usual in every trade to give a certain length of credit for goods bought—ninety days, six months, eight months, or a longer time, as may be determined by the convenience of the parties, or by the custom of the particular trade and place. If a man has sold goods to another on six months' credit, he may draw a bill upon his debtor, payable in six months, get his bill discounted at the bank and thus qualify himself to purchase such things as he may require in his business, without waiting for the six months to expire. But bills of exchange do more than this. They not only obviate, upon occasions, the necessity for ready money; they not only enable a man to command ready money before the debts due to him arrive at maturity; they often actually take place and perform the functions of money itself.

## V

## THE CIRCULATION OF MUTUAL MONEY

*Petition for a General Mutual Banking Law*

To the Honorable the Senate and House of Representatives of the Commonwealth of Massachusetts:

This prayer of your petitioners humbly showeth that the farmers, mechanics and other actual producers, whose names are hereunto subscribed, believe the present organization of the currency to be unjust and oppressive. They, therefore, respectfully request your honorable body to republicanize gold, silver and bank-bills, by the enactment of a *General Mutual Banking Law*.

A law, embracing the following provisions, would be eminently satisfactory to your petitioners:

1. The inhabitants or any portion of the inhabitants, of any town or city in the Commonwealth, may organize themselves into a Mutual Banking Company.
2. Any person may become a member of the Mutual Banking Company of any particular town, by pledging *real estate* situated in that town, or in its immediate neighborhood, to the Mutual Bank of that town.
3. The Mutual Bank of any town may issue *paper-money* to circulate as currency among persons willing to employ it as such.
4. Every member of a Mutual Banking Company shall bind himself, and be bound, in due legal form, on admission, to receive in payment of debts, at par, and from all persons, the bills issued, and to be issued, by the particular Mutual Bank to which he may belong; but no member shall be obliged to receive, or have in possession, bills of said Mutual Bank to an amount exceeding the whole value of the property pledged by him.
5. Any member may borrow the paper money of the bank to which he belongs, on his own note running to maturity

(without indorsement), to an amount not to exceed one-half of the value of the property pledged by him.

6. The rate of interest at which said money shall be loaned by the bank, shall be determined by, and shall, if possible, just meet and cover the bare expenses of the institution.

7. No money shall be loaned by the bank to persons who do not become members of the company by pledging real estate to the bank.

8. Any member, by paying his debts to the Mutual Bank to which he belongs, may have his property released from pledge, and be himself released from all obligations to said Mutual Bank, and to holders of the Mutual-Bank money, as such.

9. No Mutual Bank shall receive other than Mutual-Bank paper-money in payment of debts due to it, except at a discount of one-half of one per cent.

10. The Mutual Banks of the several counties in the Commonwealth shall be authorized to enter into such arrangements with each other as shall enable them to receive each other's bills in payments of debts; so that, for example, a Fitchburg man may pay his debts to the Barre Bank in Oxford money, or in such other Worcester county money as may suit his convenience.

### *Remarks*

Let A, B, C, D and E take a mortgage upon real estate owned by F, to cover a value of, say, \$600; in consideration of which mortgage, let A, B, C, D and E, who are timber dealers, hardware merchants, carpenters, masons, painters, etc., furnish planks, boards, shingles, nails, hinges, locks, carpenters' and masons' labor, etc., to the value of \$600, to F, who is building a house. Let the mortgage have six months to run. A, B, C, D, and E are perfectly safe; for either F pays at the end of the six months, and then the whole transaction is closed; or F does not pay, and then they sell the real estate mortgaged by him, which is worth much more than \$600, and pay themselves, thus closing the transaction. This

transaction, generalized, gives the Mutual Bank, and furnishes a currency based upon products and services, entirely independent of hard money, or paper based on hard money. For A, B, C, D and E may give to F, instead of boards, nails, shingles, etc., 600 certificates of his mortgage, said certificates being receivable by them for services and products, each one in lieu of a silver dollar; each certificate being, therefore, in all purchases from them, equivalent to a one dollar bill. If A, B, C, D and E agree to receive these certificates, each one in lieu of a silver dollar, for the redemption of the mortgage; if, moreover, they agree to receive them, each one in lieu of a silver dollar, from whomsoever it may be, in all payments—then A, B, C, D and E are a banking company that issues mutual money; and as they never issue money except upon a mortgage of property of double the value of the money issued, their transactions are always absolutely safe, and their money is always absolutely good.

Any community that embraces members of all trades and professions may totally abolish the use of hard money, and of paper based on hard money, substituting mutual money in its stead; and they may always substitute mutual money in the stead of hard money and bank bills, to the precise extent of their ability to live within themselves on their own resources.

### *The Rate of Interest*

As interest-money charged by Mutual Banks covers nothing but the expenses of the institutions, such banks may lend money, at a rate of less than one per cent per annum, to persons offering good security.

### *Advantages of Mutual Banking*

It may be asked, "What advantage does mutual banking hold out to individuals who have no real estate to offer in pledge?" We answer this question by another: What advantage do the existing banks hold out to individuals who desire to borrow, but are unable to offer adequate security?

If we knew of a plan whereby, through an act of the legislature, every member of the community might be made rich, we would destroy this petition and draw up another embodying that plan. Meanwhile, we affirm that no system was ever devised so beneficial to the poor as the system of mutual banking; for if a man having nothing to offer in pledge, has a friend who is a farmer, or other holder of real estate, and that friend is willing to furnish security for him, he can borrow money at the mutual bank at a rate of 1 per cent interest a year; whereas, if he should borrow at the existing banks, he would be obliged to pay 6 per cent. Again, as mutual banking will make money exceedingly plenty, it will cause a rise in the rate of wages, thus benefiting the man who has no property but his bodily strength; and it will not cause a proportionate increase in the price of the necessaries of life: for the price of provisions, etc., depends on supply and demand; and mutual banking operates, not directly on supply and demand, but to the diminution of the rate of interest on the medium of exchange.

But certain mechanics and farmers say, "We borrow no money, and therefore pay no interest. How, then, does this thing concern us?" Hearken, my friends! let us reason together. I have an impression on my mind that it is precisely the class who have no dealings with the banks, and derive no advantages from them, that ultimately pay all the interest money that is paid. When a manufacturer borrows money to carry on his business, he counts the interest he pays as a part of his expenses, and therefore adds the amount of interest to the price of his goods. The consumer who buys the goods pays the interest when he pays for the goods; and who is the consumer, if not the mechanic and the farmer? If a manufacturer could borrow money at 1 per cent, he could afford to undersell all his competitors, to the manifest advantage of the farmer and mechanic. The manufacturer would neither gain nor lose; the farmer and mechanic, who have no dealings with the bank, would gain the whole difference; and the bank—which, were it not for the competi-



tion of the Mutual Bank, would have loaned the money at 6 per cent interest—would lose the whole difference. It is the indirect relation of the bank to the farmer and mechanic, and not its direct relation to the manufacturer and merchant, that enables it to make money. When foreign competition prevents the manufacturer from keeping up the price of his goods, the farmer and mechanic, who are consumers, do not pay the interest money: but still the interest is paid by the class that derive no benefit from the banks; for, in this case, the manufacturer will save himself from loss by cutting down the wages of his workmen who are producers. Wages fluctuate, rising and falling (other things being equal) as the rate of interest falls or rises. If the farmer, mechanic and operative are not interested in the matter of banking, we know not who is.

*Mutual Money is Generally Competent to Force its Own  
Way Into General Circulation*

Let us suppose the Mutual Bank to be at first established in a single town, and its circulation to be confined within the limits of that town. The trader who sells the produce of that town in the city and buys there such commodities—tea, coffee, sugar, calico, etc.—as are required for the consumption of his neighbors, sells and buys on credit. He does not pay the farmer cash for his produce; he does not sell that produce for cash in the city; neither does he buy his groceries, etc., for cash from the city merchant: but he buys of the farmer at, say, eight months' credit; and he sells to the city merchant at, say, six months' credit. He finds, moreover, as a general thing, that the exports of the town which pass through his hands very nearly balance the imports that he brings into the town for sale; so that, in reality, the exports—butter, cheese, pork, beef, eggs, etc.—pay for the imports—coffee, sugar, etc. And how, indeed, could it be otherwise? It is not to be supposed that the town has silver mines and a mint; and, if the people pay for their imports in money, it will be because they have become enabled so to do by selling

their produce for money. It follows, therefore, that the people in a country town do not make the money, whereby they pay for store goods, off each other, but that they make it by selling their produce out of the town. There are, therefore, two kinds of trading going on at the same time in the town—one, trade of the inhabitants with each other; and another of the inhabitants, through the store, with individuals living out of town. And these two kinds of trade are perfectly distinct from each other. The mutual money would serve all the purposes of the internal trade; leaving the hard money, and paper based on hard money, to serve exclusively for the purposes of trade that reaches out of the town. The mutual money will not prevent a single dollar of hard money, or paper based on hard money, from coming into the town; for such hard money comes into the town, not in consequence of exchanges made between the inhabitants themselves, but in consequence of produce sold abroad.\* So long as produce is sold out of the town, so long will the inhabitants be able to buy commodities that are produced out of the town; and they will be able to make purchases to the precise extent that they are able to make sales. The mutual money will therefore prove to them an unmixed benefit; it will be entirely independent of the old money, and will open to them a new trade entirely independent of the old trade. So far as it can be made available, it will unquestionably prove itself to be a good thing; and, where it cannot be made available, the inhabitants will only be deprived of a benefit that they could not have enjoyed—mutual money or no mutual money. Besides, the comparative cost of the mutual money is almost nothing; for it can be issued to any amount on good security, at the mere cost of printing, and the expense of looking after the safety of the mortgages. If the mutual money should happen, at any particular time, not to be issued to any great extent, it would not be as though an immense mass of value was remaining idle; for interest on the mutual money is pre-

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\* These remarks may be generalized, and applied to the commerce which is carried on between nations.

cisely o. The mutual money is not itself actual value, but a mere medium for the exchange of actual values—a mere medium for the facilitation of barter.

We have remarked, that when the trader, who does the out-of-town business of the inhabitants, buys coffee, sugar, etc., he does not pay cash for them, but buys them at, say, six months' credit. Now, the existing system of credit causes, by its very nature, periodical crises in commercial affairs. When one of these crises occurs, the trader will say to the city merchant, "I owe you so much for groceries; but I have no money, for times are hard: I will give you, however, my note for the debt." Now, we leave it to the reader, would not the city merchant prefer to take the mutual money of the town to which the trader belongs, money that holds real estate and produce in that town, rather than the private note of a trader who may fail within a week?

If, under the existing system, all transactions were settled on the spot in cash, things might be different; but as almost all transactions are conducted on the credit system, and as the credit system necessarily involves periodical commercial crises, the mutual money will find very little difficulty in ultimately forcing itself into general circulation. The Mutual Bank is like the stone cut from the mountain without hands, for let it be once established in a single village, no matter how obscure, it will grow till it covers the whole earth. Nevertheless, it would be better to obviate all difficulty by starting the Mutual Bank on a sufficiently extensive scale at the very beginning.

### *The Measure of Value*

The bill of a Mutual Bank is not a standard of value, since it is itself measured and determined in value by the silver dollar. If the dollar rises in value, the bill of the Mutual Bank rises also, since it is receivable in lieu of a silver dollar. The bills of a Mutual Bank are not standards of value, but mere instruments of exchange; and as the value of mutual money is determined, not by the demand and supply of mu-

tual money, but by the demand and supply of the precious metals, the Mutual Bank may issue bills to any extent, and those bills will not be liable to any depreciation from excess of supply. And, for like reasons, mutual money will not be liable to rise in value if it happens at any time to be scarce in the market. The issues of mutual money are therefore susceptible of any contraction or expansion which may be necessary to meet the wants of the community, and such contraction or expansion cannot by any possibility be attended with any evil consequences whatever: for the silver dollar, which is the standard of value, will remain throughout at the natural valuation determined for it by the general demand and supply of gold and silver throughout the whole world.

The bills of Mutual Banks act merely as a medium of exchange: they do not and cannot pretend to be measures or standards of value. The medium of exchange is one thing; the measure of value is another; and the standard of value still another. The dollar is the measure of value. Silver and gold, at a certain degree of fineness, are the standard of value. The bill of a Mutual Bank is a bill of exchange, drawn by all the members of the mutual banking company upon themselves, indorsed and accepted by themselves, payable at sight, but only in services and products. The members of the company bind themselves to receive their own money at par; that is, in lieu of as many silver dollars as are denoted by the denomination on the face of the bill. Services and products are to be estimated in dollars, and exchanged for each other without the intervention of specie.\*

Mutual money, which neither is nor can be merchandise,

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\* "I now undertake to affirm positively, and without the least fear that I can be answered, what heretofore I have but suggested—that a paper issued by the government, with the simple promise to receive it in all its dues, leaving its creditors to take it or gold and silver at their option, would, to the extent that it would circulate, form a perfect paper-circulation, which could not be abused by the government; that it would be as steady and uniform in value as the metals themselves; and that, if by possibility, it should depreciate, the loss would fall, not on the people, but on the government itself," etc.—J. C. CALHOUN: Speech in reply to Mr. Webster on the Sub-Treasury Bill, March 22, 1838.

escapes the law of supply and demand, which is applicable to merchandise only.

### *The Regulator of Value*

The utility of an article is one thing; its exchangeable value is another; and the cost of its production is still another. But the amount of labor expended in production, though not the measure, is, in the long run, the regulator of value; for every new invention which abridges labor, and enables an individual or company to offer an increased supply of valuable articles in the market brings with it an increase of competition. For, supposing that one dollar constitutes a fair day's wages, and that one man by a certain process can produce an article valued in the market at one dollar in half a day's labor, other men will take advantage of the same process, and undersell the first man, in order to get possession of the market. Thus, by the effect of competition, the price of the article will probably be ultimately reduced to fifty cents. Labor is the true regulator of value; for every laboring man who comes into competition with others increases the supply of the products of labor, and thus diminishes their value; while at the same time, and because he is a living man, he increases the demand for those products to precisely the same extent, and thus restores the balance: for the laborer must be housed, clothed and subsisted by the products of his labor. Thus the addition of a laboring man, or of any number of laboring men, to the mass of producers, ought to have no effect either upon the price of labor, or upon that of commodities; since, if the laborer by his presence increases the productive power, he at the same time increases the demand for consumption. We know that things do not always fall out thus in practice; but the irregularity is explained by the fact that the laborer, who ought himself to have the produce of his labor, or its equivalent in exchange, has, by the present false organization of credit, his wages abstracted from him. Want and over-production arise sometimes from mistakes in the direction of

labor, but generally from that false organization of credit which now obtains throughout the civilized world. There is a market price of commodities, depending on supply and demand, and a natural price, depending on the cost of production; and the market price is in a state of continual oscillation, being sometimes above, and sometimes below, the natural price: but in the long run, the average of a series of years being taken, it coincides with it. It is probable that, under a true organization of credit, the natural price and market price would coincide at every moment. Under the present system, there are no articles whose market and natural prices coincide so nearly and so constantly as those of the precious metals; and it is for this reason that they have been adopted by the various nations as standards of value.

When Adam Smith and Malthus \* say that labor is a measure of value, they speak, not of the labor which an article cost, or ought to have cost, in its production, but of the quantity of labor which the article may purchase or command. It is very well, for those who mistake the philosophy of speculation on human misfortune and necessities for social science, to assume for measure of value the amount of labor which different commodities can command. Considered from this point of view, the price of commodities is regulated, not in the labor expended in their production, but by the distress and want of the laboring class. There is no device of the political economists so infernal as the one which ranks labor as a commodity, varying in value according to supply and demand. Neither is there any device so unphilosophical; since the ratio of the supply of labor to the demand for it is unvarying: for every producer is also a consumer, and rightfully, to the precise extent of the amount of his products; the laborer

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\* Malthus says (we quote the substance, and very possibly the exact words, though we have not the book by us): "If a man is born into a world already occupied, and his family is not able to support him, or if society has no demand for his labor, that man has no right to claim any nourishment whatever; he is really one too many on the earth. At the great banquet of nature there is no plate laid for him. Nature commands him to take himself away; and she will by no means delay in putting her own order into execution."

who saves up his wages being, so far as society is concerned, and in the long run, a consumer of those wages. The supply and demand for labor is virtually unvarying; and its price ought, therefore, to be constant. Labor is said to be value, not because it is itself merchandise, but because of the values it contains, as it were, in solution, or, to use the correct metaphysical term, *in potentia*. The value of labor is a figurative expression, and a fiction, like the productiveness of capital. Labor, like liberty, love, ambition, genius, is something vague and indeterminate in its nature, and is rendered definite by its object only; misdirected labor produces no value. Labor is said to be valuable, not because it can itself be valued, but because the products of labor may be truly valuable. When we say, "John's labor is worth a dollar a day," it is as though we said, "The daily product of John's labor is worth a dollar." To speak of labor as merchandise is treason; for such speech denies the true dignity of man, who is the king of the earth. Where labor is merchandise in fact (not by a mere inaccuracy of language), there man is merchandise also, whether it be in England or South Carolina.

## VI

### THE PROVINCIAL LAND BANK

"In the year 1714," says Governor Hutchinson, in his *History of Massachusetts*, a certain "party had projected a private bank; or, rather, had taken up a project published in London in the year 1684; but this not being generally known in America, a merchant of Boston was the reputed father of it. There was nothing more in it than issuing bills of credit, which all the members of the company promised to receive as money, but at no certain value compared with silver and gold; and real estate to a sufficient value was to be bound as a security that the company should perform their engagements. They were soliciting the sanction of the general court, and an act of government to incorporate them. This party generally consisted of persons in difficult or in-

volved circumstances in trade; or such as were possessed of real estate, but had little or no ready money at command; or men of no substance at all; and we may well enough suppose the party to be very numerous. Some, no doubt, joined them from mistaken principles, and an apprehension that it was a scheme beneficial to the public; and some for party's sake and public applause.

"Three of the representatives from Boston—Mr. Cooke; Mr. Noyes, a gentleman in great esteem with the inhabitants in general; and Mr. Payne—were the supporters of the party. Mr. Hutchinson, the other (an attempt to leave him out of the House not succeeding), was sent from the House to the council, where his opposition would be of less consequence. The governor was no favorer of the scheme; but the lieutenant-governor—a gentleman of no great fortune, and whose stipend from the government was trifling—engaged in the cause with great zeal.

"A third party, though very opposite to the private bank, yet were no enemies to bills of credit. They were in favor of loan-bills from the government to any of the inhabitants who would mortgage their estates as a security for the repayment of the bills with interest in a term of years: the interest to be paid annually, and applied to the support of government. This was an easy way of paying public charges, which, no doubt, they wondered that in so many ages the wisdom of other governments had never discovered. The principal men of the Council were in favor of it; and, it being thought by the first party the least of two evils, they fell in with the scheme; and, after that, the country was divided between the public and private bank. The House of Representatives was nearly equally divided, but rather favorers of the private bank, from the great influence of the Boston members in the House, and a great number of persons of the town out of it. The controversy had a universal spread, and divided towns, parishes, and particular families.

"At length, after a long struggle, the party for the public bank prevailed in the general court for a loan of £50,000



in bills of credit, which were put into the hands of trustees, and lent for five years only, to any of the inhabitants, at 5 per cent interest, one-fifth part of the principal to be paid annually. This lessened the number of the party for the private bank; but it increased the zeal, and raised a strong resentment in those that remained.”—(Thomas Hutchinson: *History of Massachusetts*, vol. ii., p. 188.)

It is utterly inconceivable that any company of sane men should have seriously proposed to issue paper money destitute of all fixed and determinate value as compared with gold and silver, imagining that such money would circulate as currency. If paper money has “no certain value compared with silver and gold,” it has no certain value compared with any commodity whatever; that is, it has no certain value at all: for, since gold and silver have a determinate value as compared with exchangeable commodities, all paper money that may be estimated in terms of marketable commodities, may be estimated in terms of silver and gold. Our author will permit us to suspect that his uncompromising hostility, not only to the land-bank, but also to everything else of a democratic tendency, blinded his eyes to the true nature of the institution he describes. Our suspicion is strengthened when we read that the paper money in question was to have a determinate value, since it was to have been secured by a pledge of “real estate to a sufficient value.” The projectors of the scheme probably intended that the members of the company should redeem their bills from the bill-holders by receiving them, in all payments, in lieu of determinate and specified amounts of gold and silver; and such a method of redemption would have given the bills “a certain value as compared with silver and gold.” \*

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\* “North Carolina, just after the Revolution, issued a large amount of paper, which was made receivable in dues to her. It was also made a legal tender; which, of course, was not obligatory after the adoption of the Federal Constitution. A large amount, say between four and five hundred thousand dollars, remained in circulation after that period, and continued to circulate for more than twenty years, at par with gold and silver during the whole time, with no other advantage than being received in the revenue of the State, which was much less than one hundred thou-

In view of this extract from Governor Hutchinson's history, we abandon all claims to novelty or originality as regards our own scheme for a Mutual Bank. We think it very probable that our theory dates back to "the project published in London in the year 1684:" but we affirm nothing positively on this head, since we are altogether ignorant of the details, not only of the provincial project, but also of the original London plan. We have no information in regard to these matters, except that which is now submitted to the reader.

Our author says, on a subsequent page:

"In 1739, a great part of the Province was disposed to favor what was called the land bank or manufactory scheme; which was begun, or rather revived, in this year, and produced such great and lasting mischiefs, that a particular relation of the rise, progress and overthrow of it may be of use to discourage any attempts of the like nature in future ages."—(*History of Massachusetts*, vol. ii., p. 352.)

It appears that after an interval of twenty-five years, the land-bank scheme rose once again above the surface of the political and financial waters. Governor Hutchinson says that this scheme produced "great and lasting mischiefs." Let us see what these "mischiefs" were:

"The project of the bank of 1714 was revived. The projector of that bank now put himself at the head of seven or eight hundred persons, some few of rank and good estate, but generally of low condition among the plebeians, and of small estate, and many of them perhaps insolvent. This notable company were to give credit to £150,000 lawful money, to be issued in bills; each person to mortgage a real estate in proportion to the sums he subscribed and took out, or to give bond with two sureties; but personal security was not to be taken for more than £100 from any one person. Ten directors and a treasurer were to be chosen by the company. Every subscriber or partner was to pay 3 per cent

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and dollars per annum."—JOHN C. CALHOUN: Speech on the bill authorizing an issue of treasury notes, Sept. 19, 1837.

interest [per annum] for the sum taken out, and 5 per cent of the principal;\* and he that did not pay bills might pay in the produce and manufacture of the Province at such rates as the directors from time to time should set: and they [the bills] should commonly pass in lawful money. The pretense was, that, by thus furnishing a medium and instrument of trade, not only the inhabitants in general would be better able to procure the Province bills of credit for their taxes, but trade, foreign and inland, would revive and flourish. The fate of the project was thought to depend on the opinion which the general court should form of it. It was necessary, therefore, to have a house of representatives well disposed. Besides the 800 persons subscribers, the needy part of the Province in general favored the scheme. One of their votes will go as far in elections as one of the most opulent. The former are most numerous; and it appeared that by far the majority of representatives for 1740 were subscribers to or favorers of the scheme, and they have ever since been distinguished by the name of the Land-Bank House.

"Men of estates and the principal merchants of the Province abhorred the project, and refused to receive the bills; but great numbers of shopkeepers who had lived for a long time on the fraud of a depreciating currency, and many small traders, gave credit to the bills. The directors, it was said, by a vote of the company, became traders,† and issued just such bills as they thought proper without any fund or security for their ever being redeemed. They purchased every sort of commodity, ever so much a drug, for the sake of pushing off their bills; and, by one means or other, a large sum—perhaps fifty or sixty thousand pounds—was floated. To lessen the temptation to receive the bills, a company of merchants agreed to issue their notes, or bills, redeemable in silver and gold at distant periods, much like the scheme in 1733, and attended with no better effect. The governor

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\* Thus the whole principal would be paid up in twenty years.

† See foregoing paragraph where it is said that debts to the bank might be paid in manufactures and produce.

exerted himself to blast this fraudulent undertaking—the land-bank. Not only such civil and military officers as were directors or partners, but all who received or paid any of the bills were displaced. The governor negatived the person chosen speaker of the House, being a director of the bank; and afterwards negatived thirteen of the newly elected counsellors, who were directors or partners in, or favorers of the scheme. But all was insufficient to suppress it. Perhaps the major part in number of the inhabitants of the Province openly or secretly, were well-wishers of it. One of the directors afterwards acknowledged to me that, although he entered into the company with a view to the public interest, yet, when he found what power and influence they had in all public concerns, he was convinced it was more than belonged to them, more than they could make a good use of, and therefore unwarrantable. Many of the more sensible, discreet persons of the Province saw a general confusion at hand. The authority of the Parliament to control all public and private persons and proceedings in the Colonies, was at that day questioned by nobody. Application was therefore made to Parliament for an act to suppress the company; which, notwithstanding the opposition made by their agent, was very easily obtained, and therein it was declared that the act of the Sixth of King George I., chapter xviii., did, does and shall extend to the Colonies and plantations of America. It was said the act of George I., when it was passed, had no relation to America; but another act, twenty years after, gave it force, even from the passing it, which it never could have had without. This was said to be an instance of the transcendent power of Parliament. Although the company was dissolved, yet the act of Parliament gave the possessors of the bills a right of action against every partner or director for the sums expressed, *with interest*. The company was in a maze. At a general meeting, some, it is said, were for running all hazards, although the act subjected them to a *proemuniere*; but the directors had more prudence, and advised them to declare that they considered themselves dissolved, and meet

only to consult upon some method of redeeming their bills of the possessors, which every man engaged to endeavor in proportion to his interest, and to pay in to the directors, or some of them, to burn or destroy. Had the company issued their bills at the value expressed on the face of them, they would have had no reason to complain at being obliged to redeem them at the same rate, but as this was not the case in general, and many of the possessors of the bills had acquired them for half their value, as expressed, equity could not be done; and, so far as respected the company, perhaps, the Parliament was not very anxious; the loss they sustained being but a just penalty for their unwarrantable undertaking, if it had been properly applied. Had not the Parliament interposed, the Province would have been in the utmost confusion, and the authority of government entirely in the Land-Bank Company."—(p. 353.)

The "mischiefs" occasioned by this land-bank seems to have been political, rather than economic, for our author nowhere affirms that the bill-holders, not members of the company, lost anything by the institution. We would remark that there are certain "mischiefs" which are regarded not without indulgence by posterity. Governor Hutchinson ought to have explained more in detail the nature of the evils he complains of; and also to have told us why he, a declared enemy of popular institutions, opposed the advocates of the bank so uncompromisingly. Mutualism operates, by its very nature, to render political government founded on arbitrary force, superfluous; that is, it operates to the decentralization of the political power, and to the transformation of the state, by substituting self-government in the stead of government *ab extra*. The Land-Bank of 1740, which embodied the mutual principle, operated vigorously in opposition to the government. Can we wonder that it had to be killed by an arbitrary stretch "of the supreme power of Parliament," and by an *ex post facto* law bearing outrageously on the individual members of the company? For our part, we admire the energy—the confidence in the principle of mutualism—of those members who

proposed to go on in spite of Parliament, "although the act subjected them to a *præmunire*." If they had gone on, they would simply have anticipated the American Revolution by some thirty years.

But where is the warning to future ages? According to Governor Hutchinson's own statement, the fault of the bank was, that it would have succeeded *too well* if it had had a fair trial; nay, that it would have succeeded in spite of all obstacles had it not been for the exertion of "the transcendent power of Parliament." Where is the bank of these degenerate days that has shown anything like the same power of endurance? Some of the existing banks find it difficult to live with the power of government exerted in their favor!

The attempt of the Land-Bank Company to republicanize gold and silver, and to make all commodities circulate as ready money was, without question, premature. But our author misapprehends the matter, mistaking a transformation of the circulating medium for a mercantile scheme. The "vote of the company whereby the directors became traders," was an act for transforming the currency. We do not justify it altogether; for it put the welfare of the cause at too great hazard; but it was, nevertheless, not totally out of harmony with the general system. We remark in conclusion, that the depreciation in the provincial currency was occasioned, not by "land-bank," that is, by mutual paper—which the Parliament forced the issuers, by an arbitrary, vindictive, and tyrannical law, to redeem *with interest*—but it was occasioned by government paper, "professing to be ultimately redeemable in gold and silver."\* All arguments, therefore, against mu-

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\* "We are told that there is no instance of a government paper that did not depreciate. In reply I affirm that there is none assuming the form I propose (notes receivable by government in payment of dues) that ever did depreciate. Whenever a paper receivable in the dues of government had anything like a fair trial, it has succeeded. Instance the case of North Carolina referred to in my opening remarks. The drafts of the treasury at this moment, with all their incumbrance, are nearly at par with gold and silver; and I might add the instance alluded to by the distinguished senator from Kentucky, in which he admits, that as soon as the excess of the issues of the Commonwealth Bank of Kentucky were reduced to the proper point, its notes rose to par. The case of Russia might also be mentioned. In 1827

tual money, derived from the colonial currency, are foreign to the purpose.

The main objections against mutual banking are as follows:

1. It is a novelty, and therefore a chimera of the inventor's brain; 2. It is an old story, borrowed from provincial history, and therefore of no account!

How would you have us answer objections like these? Things new or old may be either good or evil. Every financial scheme should stand or fall by its own intrinsic merits, and not be judged from extraneous considerations.

## VII

### MONEY

The most concise and expressive definition of the term "capital," which we have seen in the writings of the political economists, is the one furnished by J. Stuart Mill, in his table of contents. He says: "Capital is wealth appropriated to reproductive employment." There is, indeed, a certain ambiguity attached to the word wealth; but let that pass; we accept the definition. A tailor has \$5 in money, which he proposes to employ in his business. This money is unquestionably capital, since it is wealth appropriated to reproductive employment: but it may be expended in the purchase of cloth, in the payment of journeymen's wages, or in a hundred other ways; what kind of capital, then, is it? It is evidently, disengaged capital. Let us say that the tailor takes his money and expends it for cloth; this cloth is also devoted to reproductive employment, and is therefore still capital; but what kind of capital? Evidently, engaged capital. He makes this cloth into a coat; which coat is more valuable than the cloth, since it is the result of human labor bestowed upon the cloth.

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she had a fixed paper-circulation in the form of bank-notes, but which were inconvertible, of upward of \$120,000,000, estimated in the metallic ruble, and which had for years remained without fluctuation; having nothing to sustain it but that it was received in the dues of government, and that, too, with a revenue of only about \$90,000,000 annually."—JOHN C. CALHOUN: Speech on his amendment to separate the government from the banks, Oct. 3, 1837.

But the coat is no longer capital; for it is no longer (so far, at least, as the occupation of the tailor is concerned) capable of being appropriated to reproductive employment; what is it, then? It is that for the creation of which the capital was originally appropriated; it is product. The tailor takes this coat and sells it in the market for \$8; which dollars become to him a new disengaged capital. The circle is complete; the coat becomes engaged capital to the purchaser; and the money is disengaged capital, with which the tailor may commence another operation. Money is disengaged capital, and disengaged capital is money. Capital passes, therefore, through various forms; first it is disengaged capital, then it becomes engaged capital, then it becomes product, afterwards it is transformed again into disengaged capital, thus recommencing its circular progress.

The community is happy and prosperous when all professions of men easily exchange with each other the products of their labor; that is, the community is happy and prosperous when money circulates freely, and each man is able with facility to transform his product into disengaged capital, for with disengaged capital, or money, men may command such of the products of labor as they desire, to the extent, at least, of the purchasing power of their money.

The community is unhappy, unprosperous, miserable, when money is scarce, when exchanges are effected with difficulty. For notice, that, in the present state of the world, there is never real over-production to any appreciable extent; for, whenever the baker has too much bread, there are always laborers who could produce that of which the baker has too little, and who are themselves in want of bread. It is when the tailor and baker cannot exchange, that there is want and over-production on both sides. Whatever, therefore, has power to withdraw the currency from circulation, has power, also, to cause trade to stagnate; power to overwhelm the community with misery; power to carry want, and its correlative, over-production, into every artisan's house and workshop. For the transformation of product into disengaged



capital is one of the regular steps of production, and whatever withdraws the disengaged capital, or money, from circulation, at once renders this step impossible, and thus puts a drag on all production.

*There Are Various Kinds of Money*

But all money is not the same money. There is one money of gold, another of silver, another of brass, another of leather, and another of paper: and there is a difference in the glory of these different kinds of money. There is one money that is a commodity, having its exchangeable value determined by the law of supply and demand, which money may be called (though somewhat barbarously) merchandise-money; as for instance, gold, silver, brass, bank-bills, etc.; there is another money, which is not a commodity, whose exchangeable value is altogether independent of the law of supply and demand, and which may be called mutual money.

Mr. Edward Kellogg says: "Money becomes worthless whenever it ceases to be capable of accumulating an income which can be exchanged for articles of actual value. The value of money as much depends upon its power of being loaned for an income, as the value of a farm depends upon its natural power to produce." And again: "Money is valuable in proportion to its power to accumulate value by interest."\* Mr. Kellogg is mistaken. Money is a commodity in a twofold way, and has therefore a twofold value and a twofold price—one value as an article that can be exchanged for other commodities, and another value as an article that can be loaned out at interest; one price which is determined by the supply and demand of the precious metals, and another price (the rate of interest) which is determined by the distress of the borrowing community. Mr. Kellogg speaks as though this last value and last price were the only ones deserving consideration; but this is by no means the case, for this last

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\*People who raise the cry of "cheap money" fall into the same error; money that circulates freely at par, whether interest-bearing or not, is neither cheap or dear.—EDITOR.

value and price are so far from being essential to the nature of money, that the Mutual Bank will one day utterly abolish them. The natural value of the silver dollar depends upon the demand and supply of the metal of which it is composed and not upon its artificial power to accumulate value by interest. Legislation has created usury; and the Mutual Bank can destroy it. Usury is a result of the legislation which establishes a particular commodity as the sole article of legal tender; and, when all commodities are made to be ready money through the operation of mutual banking, usury will vanish.

*Convertible Paper Money Renders the Standard of Value Uncertain*

To show the effect of variations in the volume of the existing circulating medium, not only on a foreign commerce, but also on the private interests of each individual member of the community, we will, at the risk of being tedious, have recourse to an illustration. Let us suppose that the whole number of dollars (either in specie or convertible paper) in circulation, at a particular time, is equal to  $Y$ ; and that the sum of all these dollars will buy a certain determinate quantity of land, means of transportation, merchandise, etc., which may be represented by  $x$ ; for, if money may be taken as the measure and standard of value for commodities, then conversely, commodities may be taken as the standard and measure of value for money. Let us say, therefore, that the whole mass of the circulating medium is equal to  $Y$ ; and that its value, estimated in terms of land, ships, houses, merchandise, etc., is equal to  $x$ . If, now, the quantity of specie and convertible paper we have supposed to be in circulation be suddenly doubled, so that the whole mass becomes equal in volume to  $2Y$ , the value of the whole mass will undergo no change, but will still be equal to  $x$ , neither more nor less. This is truly wonderful! Some young mathematician, fresh from his algebra, will hasten to contradict us, and say that the value of the whole mass will be equal to  $2x$ , or perhaps to  $x$  divided by 2, but it is the

young mathematician who is in error, as may easily be made manifest. The multiplication of the whole number of dollars by 2 causes money to be twice as easy to be obtained as it was before. Such multiplication causes, therefore, each individual dollar to fall to one-half its former value; and this for the simple reason that the price of silver dollars, or their equivalents in convertible paper, depends upon the ratio of the supply of such dollars to the demand for them, and that every increase in the supply causes therefore a proportionate decrease in the price. The variation in the volume does not cause a variation in the value of the volume, but causes a variation in the price of the individual dollar. Again, if one-half the money in circulation be suddenly withdrawn, so that the whole volume shall equal  $\frac{1}{2}Y$ , the value of the new volume will be exactly equal to  $x$ , for the reason that the difficulty in procuring money will be doubled, since the supply will be diminished one-half, causing each individual dollar to rise to double its former value. The value of the whole mass in circulation is independent of the variations of the volume; for every increase in the volume causes a proportionate decrease in the value of the individual dollar, and every decrease in the volume causes proportionate increase in the value of the individual dollar. If the mass of our existing circulating medium were increased a hundredfold, the multiplication would have no effect other than that of reducing the value of the individual dollar to that of the existing individual cent. If gold were as plenty as iron, it would command no higher price than iron. If our money were composed of iron, we should be obliged to hire an ox-cart for the transportation of \$100; and it would be as difficult, under such conditions, to obtain a cartload of iron, as it is now to obtain its value in our present currency.

A fall or rise in the price of money, and a rise or fall in the price of all other commodities besides money, are precisely the same economical phenomenon.

The effect of a change in the volume of the currency is

therefore not a change in the value of the whole volume, but a change in the value of the individual silver dollar, this change being indicated by a variation in the price of commodities; a fall in the price of the silver dollar being indicated by a rise in the price of commodities, and a rise in the price of the dollar being indicated by a fall in the price of commodities. "The value of money," says J. Stuart Mill, other things being the same, "varies inversely as its quantity; every increase of quantity lowering its value, and every diminution raising it in a ratio exactly equivalent. That an increase of the quantity of money raises prices, and a diminution lowers them, is the most elementary proposition in the theory of the currency; and, without it, we should have no key to any of the others."

Let us use this key for the purpose of unlocking the practical mysteries attached to variations in the volume of the existing currency. The banks, since they exercise control over the volume of the currency by means of the power they possess of increasing or diminishing, at pleasure, the amount of paper money in circulation, exercise control also over the value of every individual dollar in every private man's pocket. They make great issues, and money becomes plenty; that is to say, every other commodity becomes dear. The capitalist sells what he has to sell while prices are high. The banks draw in their issues, and money becomes scarce; that is, all other commodities become cheap. The community is distressed for money. Individuals are forced to sell property to raise money to pay their debts, and to sell at a loss on account of the state of the market. Then the capitalist buys what he desires to buy while prices are low. These operations are the upper and the nether mill-stones, between which the hopes of the people are ground to powder.

#### *The Evils of Convertible Paper Money*

Paper professing to be convertible into silver and gold, by overstocking the home-market with money, makes specie to be in less demand in this country than it is abroad, and renders

profitable an undue exportation of gold and silver; thus occasioning a chronic drain of the precious metals.\*

It increases the volume of the currency, and therefore decreases the value of the individual silver dollar; thus causing an enhancement in the price of all domestic commodities; giving an unnatural advantage in our own markets to foreign manufacturers, who live in the enjoyment of a more valuable currency and presenting irresistible inducements to our own merchants to purchase abroad rather than at home.

It operates to give control over the currency to certain organized bodies of men, enabling them to exercise partiality, and loan capital to their relatives and favorites; thus encouraging incapacity, and depressing merit; and therefore demoralizing the people who are led to believe that legitimate business, which should be founded altogether upon capital, industry and talent, partakes of the nature of court-favor and gambling.

It operates to encourage unwise speculation; and, by furnishing artificial facilities to rash, scheming and incompetent persons, induces the burying of immense masses of capital in unremunerative enterprises.

It reduces the value of our own currency below the level of the value of money throughout the world, rendering over-importation inevitable, causing our markets to be overstocked with foreign goods, and thus making the ordinary production of the country to present all the calamitous effects of over-production.

It operates inevitably to involve the country and individuals doing business in the country, in foreign debts. It operates also, by blinding the people to the true nature of money, and encouraging them to raise funds for the commencement and

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\* Persons of little foresight rejoice in the high price of commodities—that is, in the low price or plentifulness of money—not reflecting that, when money is too plenty, the sap and vitality of the country flow forth in a constant stream to enrich foreign lands. An excessive supply of money causes a deceitful appearance of prosperity, and favors temporarily a few manufacturers, traders and mechanics; but it is always a source of unnumbered calamities to the whole country.

completion of hazardous enterprises by the sale of scrip and bonds abroad, to mortgage the country, and the produce of its industry, to foreign holders of obligations against us, etc.

### *Advantages of a Mutual Currency*

Mutual Banks would furnish an adequate currency; for whether money were hard or easy, all legitimate paper would be discounted by them. At present, banks draw in their issues when money is scarce (the very time when a large issue is desirable), because they are afraid there will be a run upon them for specie; but Mutual Banks, having no fear of a run upon them—as they have no metallic capital, and never pretend to pay specie for their bills—can always discount good paper.

It may appear to some readers, notwithstanding the explanations already given,\* that we go altogether farther than we are warranted when we affirm that the creation of an immense mass of mutual money would produce no depreciation in the price of the silver dollar. The difficulty experienced in understanding this matter results from incorrect notions respecting the standard of value, the measure of value, and the nature of money. This may be made evident by illustration. The yard is a measure of length; and a piece of wood, or a rod of glass or metal, is a corresponding standard of length. The yard, or measure, being ideal, is unvarying; but all the standards we have mentioned contract or expand by heat or cold, so that they vary (to an almost imperceptible degree, perhaps,) at every moment. It is almost impossible to measure off a yard, or any other given length, with mathematical accuracy. The measure of value is the dollar; the standard of value, as fixed by law, is silver or gold at a certain degree of fineness. Corn, land, or any other merchantable commodity might serve as a standard of value, but silver and gold form a more perfect standard, on account of their being less liable to varia-

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\*Perhaps on account of those explanations. As heat melts wax, and hardens clay, so the same general principles, as applied to merchandise money and to mutual money give opposite results.

tion; and they have accordingly been adopted, by the common consent of all nations, to serve as such. The dollar, as simple measure of value, has—like the yard, which is a measure of length—an ideal existence only. In Naples, the ducat is the measure of value; but the Neapolitans have no specific coin of that denomination. Now, it is evident that the bill of a Mutual Bank is like a note of hand, or like an ordinary bank bill, neither a measure, nor a standard of value. It is (1) not a measure; for, unlike all measures, it has an actual, and not a merely ideal existence. The bill of a Mutual Bank, being receivable in lieu of a specified number of silver dollars, presupposes the existence of the silver dollar as a measure of value, and acknowledges itself as amenable to that measure. The silver dollar differs from a bill of a Mutual Bank receivable in lieu of a silver dollar, as the measure differs from the thing measured. The bill of a Mutual Bank is (2) not a standard of value, because it has in itself no intrinsic value, like silver and gold; its value being legal, and not actual. A stick has actual length, and therefore may serve as a standard of length; silver has actual intrinsic value, and may therefore serve as a standard of value; but the bill of a Mutual Bank, having a legal value only, and not an actual one, cannot serve as a standard of value, but is referred, on the contrary, to silver and gold as that standard, without which it would itself be utterly unintelligible.

If ordinary bank bills represented specie actually existing in the vaults of the banks, no mere issue or withdrawal of them could effect a fall or rise in the value of money; for every issue of a dollar-bill would correspond to the locking up of a specie dollar in the bank's vaults; and every canceling of a dollar-bill would correspond to the issue by the banks of a specie dollar. It is by the exercise of banking privileges—that is, by the issue of bills purporting to be, but which are not, convertible—that the banks effect a depreciation in the price of the silver dollar. It is this fiction (by which legal value is assimilated to, and becomes, to all business intents and purposes, actual value) that enables bank-notes to depre-

ciate the silver dollar. Substitute verity in the place of fiction, either by permitting the banks to issue no more paper than they have specie in their vaults, or by effecting an entire divorce between bank-paper and its pretended specie basis, and the power of paper to depreciate specie is at an end. So long as the fiction is kept up, the silver dollar is depreciated, and tends to emigrate for the purpose of traveling in foreign parts; but the moment the fiction is destroyed, the power of paper over metal ceases. By its intrinsic nature specie is merchandise, having its value determined, as such, by supply and demand; but on the contrary, paper-money is, by its intrinsic nature, not merchandise, but the means whereby merchandise is exchanged, and as such ought always to be commensurate in quantity with the amount of merchandise to be exchanged, be that amount great or small. Mutual money is measured by specie, but is in no way assimilated to it; and therefore its issue can have no effect whatever to cause a rise or fall in the price of the precious metals.

## VIII

### CREDIT

We are obliged to make a supposition by no means flattering to the individual presented to the reader. Let us suppose, therefore, that some miserable mortal, who is utterly devoid of any personal good quality to recommend him, makes his advent on the stage of action, and demands credit. Are there circumstances under which he can obtain it? Most certainly. Though he possesses neither energy, morality nor business capacity, yet if he owns a farm worth \$2,000, which he is willing to mortgage as security for \$1,500 that he desires to borrow, he will be considered as eminently deserving of credit. He is neither industrious, punctual, capable, nor virtuous; but he owns a farm clear of debt worth \$2,000 and verily he shall raise the \$1,500!

Personal credit is one thing; real credit is another and a very different thing. In one case, it is the man who receives



credit; in the other, it is the property, the thing. Personal credit is in the nature of partnership; real credit is in the nature of a sale, with a reserved right of repurchase under conditions. By personal credit, two men or more are brought into voluntary mutual relations; by real credit, a certain amount of fixed property is transformed, under certain conditions and for a certain time, into circulating medium; that is, a certain amount of engaged capital is temporarily transformed into disengaged capital.

A young man goes to a capitalist saying: "If you will lend me \$100, I will go into a certain business, and make \$1,500 in the course of the present year; and my profits will thus enable me to pay you back the money you lend me, and another \$100 for the use of it. Indeed it is nothing more than fair that I should pay you as much as I offer; for, after all, there is a great risk in the business, and you do me a greater favor than I do you." The capitalist answers: "I cannot lend you money on such terms; for the transaction would be illegal; nevertheless, I am willing to help you all I can, if I can devise a way. What do you say to my buying such rooms and machinery as you require, and letting them to you on the terms you propose? For, though I cannot charge more than 6 per cent on money loaned, I can let buildings, whose total value is only \$100, at a rate of \$100 per annum, and violate no law. Or, again, as I shall be obliged to furnish you with the raw material consumed in your business, what do you say to our entering into a partnership, so arranging the terms of agreement that the profits will be divided in fact, as they would be in the case that I loaned you \$100 at 100 per cent interest per annum?" The young man will probably permit the capitalist to arrange the transaction in any form he pleases, provided the money is actually forthcoming. If the usury laws speak any intelligible language to the capitalist, it is this: "The legislature does not intend that you shall lend money to any young man to help in his business, where the insurance upon the money you trust in his hands, and which is subjected to the risk of his trans-

actions, amounts to more than 6 per cent per annum on the amount loaned." And, in this speech, the deep wisdom of the legislature is manifested! Why six, rather than five or seven? Why any restriction at all?

Now for the other side (for we have thus far spoken of the usury laws as they bear on mere personal credit): If a man borrows \$1,500 on the mortgage of a farm, worth, in the estimation of the creditor himself, \$2,000, why should he pay 6 per cent interest on the money borrowed? What does this interest cover? Insurance? Not at all; for the money is perfectly safe, as the security given is confessedly ample; the insurance is 0. Does the interest cover the damage which the creditor suffers by being kept out of his money for the time specified in the contract? This cannot be the fact—for the damage is also 0—since a man who lends out money at interest, on perfect security, counts the total amount of interest as clear gain, and would much prefer letting the money at  $\frac{1}{2}$  per cent to permitting it to remain idle. The rate of interest upon money lent on perfect security is commensurate, not with the risk the creditor runs of losing his money—for that risk is 0; not to the inconvenience to which the creditor is put by letting the money go out of his hands—for that inconvenience is also 0,\* since the creditor lends only such money as he himself does not wish to use; but it is commensurate with the distress of the borrower. One per cent per annum interest on money lent on perfect security is, therefore, too high a rate; and all levying of interest-money on perfect security is profoundly immoral,† since such interest-money is the fruit of the speculation of one man upon the misfortune of another. Yet the legislature permits one citizen to speculate upon the misfortune of another to the amount

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\* "If, however, the inconvenience is anything, the lender ought to be indemnified; but such indemnification is not properly interest.

† Perhaps, we ought rather to say, "would be profoundly immoral in a more perfect social order." We suppose that must be considered right, in our present chaotic state, which is best on the whole, or which—taking men's passions as they are—is unavoidable.

of six-hundredths per annum of the extent to which he gets him into his power! This is the morality of the usury laws in their bearing on real credit.

### *Legitimate Credit*

All the questions connected with credit, the usury laws, etc., may be forever set at rest by the establishment of Mutual Banks. Whoever goes to the mutual bank, and offers real property in pledge, may always obtain money; for the Mutual Bank can issue money to any extent; and that money will always be good, since it is all of it based on actual property, that may be sold under the hammer. The interest will always be at a less rate than 1 per cent per annum, since it covers, not the insurance of the money loaned, there being no such insurance required, as the risk is 0; since it covers, not the damage which is done the bank by keeping it out of its money, as that damage is also 0, the bank having always an unlimited supply remaining on hand, so long as it has a printing-press and paper; since it covers, plainly and simply, the mere expenses of the institution—clerk-hire, rent, paper, printing, etc. And it is fair that such expenses should be paid under the form of a rate of interest; for thus each one contributes to bear the expenses of the bank, and in the precise proportion to the benefits he individually experiences from it. Thus the interest, properly so called, is 0; and we venture to predict that the Mutual Bank will one day give all the real credit that will be given; for since this bank will give such at 0 per cent interest per annum, it will be difficult for other institutions to compete with it for any length of time. The day is coming when everything that is bought will be paid for on the spot, and in mutual money; when all payments will be made, all wages settled on the spot. The Mutual Bank will never, of course, give personal credit; for it can issue bills only on real credit. It cannot enter into partnership with anybody; for, if it issues bills where there is no real guarantee

furnished for their repayment, it vitiates the currency, and renders itself unstable. Personal credit will one day be given by individuals only; that is, capitalists will one day enter into partnership with enterprising and capable men who are without capital, and the profits will be divided between the parties according as their contract of partnership may run. Whoever, in the times of Mutual Bank, has property, will have money also; and the laborer who has no property will find it very easy to get it; for every capitalist will seek to secure him as a partner. All services will then be paid for in ready money; and the demand for labor will be increased three, four, and five-fold.

As for credit of the kind that is idolized by the present generation, credit which organizes society on feudal principles, confused credit, the Mutual Bank will obliterate it from the face of the earth. Money furnished under the existing system to individuals and corporations is principally applied to speculative purposes, advantageous, perhaps, to those individuals and corporations, if the speculations answer; but generally disadvantageous to the community, whether they answer or whether they fail. If they answer, they generally end in a monopoly of trade, great or small, and in consequent high prices; if they fail, the loss falls on the community. Under the existing system, there is little safety for the merchant. The utmost degree of caution practicable in business has never yet enabled a company or individual to proceed for any long time without incurring bad debts.

The existing organization of credit is the daughter of hard money, begotten upon it incestuously by that insufficiency of circulating medium which results from laws making specie the sole legal tender. The immediate consequences of confused credit are want of confidence, loss of time, commercial frauds, fruitless and repeated applications for payment, complicated with irregular and ruinous expenses. The ultimate consequences are compositions, bad debts, expensive accommodation-loans, lawsuits, insolvency, bankruptcy, separation of classes, hostility, hunger, extravagance, distress, riots, civil

war, and, finally, revolution. The natural consequences of mutual banking are, first of all, the creation of order, and the definite establishment of due organization in the social body; and, ultimately, the cure of all the evils which flow from the present incoherence and disruption in the relations of production and commerce.







































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